...Upfront

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Food Assistance and Welfare Reform

Welfare reform brought about by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 made fundamental changes to the Federal programs that support needy families and children. The long-term guarantee of benefits under a variety of programs has been eliminated in favor of a short-term, temporary assistance program to help families get back on their feet. States have been given more flexibility in designing and implementing programs that meet their needs, and individuals have been given added personal responsibility to provide for themselves through job earnings and for their children through child-support payments by absentee parents. Under the new Temporary Assistance for Needy Families (TANF) program, families may now receive cash benefits for a maximum of 5 years, and most adults are required to work after 2 years of receiving benefits. States not meeting these requirements face a reduction in the Federal contribution to their TANF funds.

USDA’s food-assistance programs, especially the Food Stamp Program, are estimated to account for almost half of the Act’s projected $54-billion reduction in Federal spending during 1997-2002 compared to prior legislation. While food stamps are still an entitlement for low-income families, benefits were reduced substantially in three areas: across-the-board reductions in benefits; limits on deductions from income when calculating benefits; and greater restrictions on eligibility of able-bodied adults and legal immigrants. Preliminary research by USDA’s Food and Nutrition Service suggests that families with children will lose an average of 13 percent of their food stamp benefits by 2002, or about $45 each month. In addition, over 1 million people—largely legal immigrants and unemployed adults—will lose their eligibility to receive food stamps.

Reductions in nonfood assistance programs will likely spill over into food-assistance programs. The size of the impact will depend on the state of the economy and the success of the Act in moving people from welfare to work. In fiscal 1997, expenditures for the Food Stamp Program fell 12 percent, as participation dropped from an average of 25.5 million people per month in fiscal 1996 to 22.9 million in fiscal 1997. Disentangling the influence of economic conditions is important to understanding what lies ahead for food-assistance programs. The pattern of participation in the Food Stamp Program over the last two decades is similar to that of poverty in America. As the number of people in poverty rose, food stamp participation grew. As poverty fell, so did reliance on food stamps. Research by USDA’s Economic Research Service suggests that a mild economic downturn similar to the late 1980’s and early 1990’s could raise food stamp participation levels.

The sizable contribution of food assistance to low-income households’ resources attests to its importance in the safety net. For example, low-income single-parent households received 58 percent of their income from Government assistance in 1996, of which food stamps accounted for 13 percent.

As we move into the 21st century, electronic technology is one of the tools being used to make programs more efficient. By 2002, all States are required to replace paper food stamp coupons with an Electronic Benefits Transfer system, which uses debit-card-like technology. Recent demonstration projects found that the electronic benefit delivery and redemption system lowered costs for recipients, retailers, and financial institutions, although the cost of the system to the Federal Government and its effects on food spending by recipients is less definitive. Further experience with electronic benefits will allow more precise evaluation. These are among the important research challenges that lie ahead.

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Inside...

Food Assistance and Welfare Reform

Information Updates

...Symbolizes topics linked to the Food Assistance and Nutrition Research Program—a comprehensive program that addresses the Nation's critical food assistance and nutrition policy needs. For more information, visit the program's Briefing Room on the Internet: www.econ.ag.gov/briefing/foodasst

How Government Assistance Affects Income

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Government assistance accounts for only a small share of household income on a national basis (about 5 percent), but it constitutes a large part of income for many recipients. The most economically vulnerable households in the United States, especially low-income single-parent households, receive a substantial share of their income from assistance provided by Federal, State, and local governments. In 1996, 58 percent of the income of low-income single-parent households came from government assistance programs. The levels and distribution of income vary across sociodemographic groups, as does the extent of household dependence on earnings and government assistance.

Assessing government assistance as a source of income for specific segments of the population helps States identify which groups are most at risk as States design and implement new welfare programs under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (see "Welfare Reform Affects USDA's Food Assistance Programs," elsewhere in this issue). The importance of assistance programs to the incomes of the most financially vulnerable U.S. households attests to the serious challenges facing States.

Employment Earnings Are the Principal Income Source...

Wages, salaries, and self-employment earnings accounted for 77 percent of national household income in 1996. Income from government assistance programs accounted for 5 percent. The remaining 18 percent of national income came from a variety of sources, including Social Security, dividends, interest, and retirement payments.

We grouped and categorized income sources to describe the composition of income in the United States. Doing so allows an examination of the contribution of various types of assistance to income (see box for a description of income sources). All nonassistance income was grouped into one category called base income. Income from government assistance was classified according to whether it was cash or payments in-kind.

Base income accounted for 95 percent of national household income in 1996. Base income includes all income from earnings, including Social Security and unemployment payments because these are linked to contributions from wages prior to retirement or job loss. Employment income (wages, salaries, and income from self-employment) accounted for 82 percent of base income; social insurance income (primarily Social Security) 8 percent; dividends, interest and rent 6 percent; retirement payments 3 percent; and unemployment compensation, interhousehold transfers, and other income 1 percent (table 1).

Income from government assistance programs constituted 5 percent of national household income in 1995—2 percent from cash assistance and 3 percent from in-kind assistance. Education assistance was the largest component of government cash assistance, accounting for 32 percent. Next were Supplemental Security Income (SSI) and Earned Income Tax Credit (EITC), each of which accounted for 25 percent of cash-assistance income. The smallest of the cash-assistance programs, Aid to Families with Dependent Children and General Assistance (AFDC/GA), accounted for 18 percent of cash-assistance income.

Health programs dominated government in-kind assistance income. Medicare accounted for 71 percent of in-kind assistance income, while

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Medicaid accounted for 17 percent. The two primary Federal food-assistance programs, the Food Stamp Program and the National School Lunch Program, accounted for 11 percent of in-kind assistance income, while housing and energy assistance accounted for 1 percent.

...But Not for All Households

These figures describe an economy comprised of households that rely primarily on their own resources to generate income. Even for poor households, base income comprised more than half (55 percent) of total household income in 1996. However, the contribution of base income dipped below half (42 percent) for poor single-parent households.

In order to examine the relative importance of employment income to specific groups, we divided U.S. households into five types: single-adult households, multi-adult households without children, dual-parent households with at least one child, single-parent households with at least one child, and elderly households with or without children (see box on household definitions).

The largest number of households in 1996—27 percent of all U.S. households—were single-adult households (table 2). Dual-parent households were the second-most numerous, accounting for 23 percent of all households. Forty-one percent of the U.S. population lived in dual-parent households in 1996, 21 percent in multi-adult households without children, 14 percent in elderly households, 13 percent in single-parent households, and another 11 percent in single-adult households. The majority of children (70 percent) lived in dual-parent households, while 28 percent lived in households headed by a single parent, and approximately 2 percent lived in households headed by someone 65 years old or over.

Table 1
Employment Accounted for 77 Percent of National Household Income in 1996

Income source	Amount
	Billion dollars
Base income	4,690
Employment	3,834
Dividends, interest, and rent	274
Retirement	167
Unemployment compensation	7
Social insurance	356
Interhousehold transfers	33
Other	9
Cash-assistance income	85
Supplemental Security Income	22
AFDC and general assistance	15
Education assistance	27
Earned Income Tax Credit	21
In-kind assistance income	179
Food stamps	14
School lunch	6
Medicaid	30
Medicare	127
Housing	.9
Energy assistance	.5
Total income from all sources	4,954

Source: ERS calculations based on the 1996 Current Population Survey.

Table 2
In 1996, 41 Percent of Americans—Including 70 Percent of Children—Lived in Dual-Parent Households

Household type	Households		Household members		Children		Elderly	
	Million	*Percent*	*Million*	*Percent*	*Million*	*Percent*	*Million*	*Percent*
Dual-parent	25.4	23	107.1	41	48.7	70	0.6	2
Single-parent	11.2	10	34.9	13	19.6	28	.2	1
Single-adult	30.0	27	30.0	11	0	0	0	0
Multi-adult	22.4	20	54.7	21	0	0	1.8	6
Elderly	21.8	20	37.2	14	1.1	2	29.3	92
U.S. total	110.9	100	264.0	100	69.4	100	31.9	100

Notes: Does not include households headed by someone in the military. Entries may not sum to total due to rounding.
Source: ERS calculations based on the 1996 Current Population Survey.

In 1996, 16 percent of all households had incomes (excluding assistance) below the poverty line. The poverty line is established by the Office of Management and Budget at the minimum subsistence income level for a household, depending on the number of adults and children living in the household. For example, in 1996 the poverty line was $15,911 for a family of four (two adults, two children) and $12,641 for a single parent with two children. (Although standard poverty statistics are calculated on all cash

Sources of Income

The income statistics in this article are based on data from the March 1997 Current Population Survey. This is a survey of about 60,000 households conducted by the Bureau of the Census for the Bureau of Labor Statistics. The survey gathers data on self-reported income, meaning that its income totals could vary from official program expenditure statistics.

The survey records income from many sources, which we combined into the following categories.

Base Income

Employment income: wage-salary (wages, salaries, and tips from paid employment); nonfarm self employment (net earnings from own business); farm self-employment (net earnings from own farming operation).

Dividends, interest, rent: Income from capital holdings (except capital gains).

Retirement: Pensions from personal plans, employer plans, and government plans (but not Social Security).

Unemployment compensation: Payments from the Unemployment Compensation system.

Social insurance: Social Security income (including its related Survivor and Disability benefits), Workers' Compensation payments, Veterans' Administration benefits.

Interhousehold transfers: Payments received from another household, including alimony, child support, and financial assistance (but not loans).

Other income: Cash income from any other source, including royalties, private insurance payments, estates, trusts, strike benefits, earnings from third or fourth jobs held during the year (only earnings from the longest and second jobs are included in wage-salary and self-employment earnings).

Cash-Assistance Income

Supplemental Security Income (SSI): Income support for low-income elderly, blind, and disabled persons who are not covered by Social Security or its associated Survivor and Disability programs.

Aid to Families with Dependent Children and General Assistance (AFDC/GA): AFDC provided cash assistance to low-income families with children. The States administered the program and had wide discretion in setting benefit levels and eligibility criteria. AFDC was funded primarily by the Federal Government, with matching funds from the States and, in some States, from local governments. AFDC and several related programs have now been replaced by State programs with Federal funding in the form of a block grant to each State under the Temporary Assistance to Needy Families program (TANF). General Assistance is offered by some States through their own cash-assistance programs to low-income families and individuals who do not qualify for the federally funded programs.

Educational assistance: Grants and scholarships (excluding loans) to help cover costs of attending college or university or vocational, business, or trade schools.

Earned Income Tax Credit (EITC): Credits against income tax, based on earned income for low-income households with children. Originally designed to offset the costs of payroll taxes and income taxes for low-income families, this program was later expanded to provide additional income to low-wage workers in families with children. The credit is refundable, meaning that if it exceeds taxes due, the Internal Revenue Service pays the difference to the family.

In-Kind Assistance Income

Food stamps: The market value of food coupons received under the Food Stamp Program. The Food Stamp program is operated by USDA and provides food coupons to eligible families and individuals to ensure access to a minimally adequate diet.

School lunch: The estimated value of free and reduced-cost meals provided to children by the National School Lunch and School Breakfast Programs. The Census Bureau estimates these values, based on the number of children in a household who receive free or reduced-cost meals and the number of months involved. Children from homes with income below 130 percent of the poverty line are eligible for free meals, and children from homes with income between 130 and 185 percent of the poverty line are eligible for reduced-cost meals.

Medicaid: Medical insurance for low-income families, especially for those covered by AFDC. This program is funded jointly by the Federal Government and the States. This is an estimate prepared by the Census Bureau of the value of Medicaid insurance to those who report being covered by Medicaid.

Medicare: Medical insurance for the elderly. This is an estimate prepared by the Census Bureau of the value of Medicare insurance to those who report being covered by Medicare.

Housing assistance: Financial assistance from Federal, State, or local government programs to help cover rent, or the value of rent subsidy in subsidized public housing provided by such programs.

Energy assistance: The value of assistance in cash or kind to purchase fuel for heating, or to help cover energy-related utility costs.

income, including most government cash-assistance income, we excluded SSI and AFDC/GA payments from our income analyses to focus on the households' ability to achieve an adequate income without government assistance.)

The distribution of poverty varied among household types, with single-parent households facing the highest poverty rate. Forty-one percent of single-parent households were below the poverty line, compared with 21 percent of single-adult households, 15 percent of elderly households, 8 percent of dual-parent households, and 5 percent of multi-adult households without children. Although only 13 percent of the total population lived in single-parent households, 39 percent of all poor people—those with incomes below the poverty line—lived in single-parent households. Forty-eight percent of children living in single-parent households were poor. Sixty-three percent of all poor children lived in households headed by single parents.

The contribution of employment income to total income was low, although still substantial, for all poor working-age households. Dual-parent households with nonassistance incomes below the poverty line received 52 percent of their income from employment; single-adult households, 42 percent; multi-adult households without children, 32 percent; and single-parent households, 31 percent.

Welfare Assistance Varies by Household Type

Overall, poor households received 26 percent of their income from cash assistance and 18 percent from in-kind assistance in 1996. The largest contributions to poor households' income came from SSI (10 percent), AFDC/GA (8 percent), food stamps (8 percent), Medicaid (6 percent), and EITC (6 percent). The exact level and type of welfare assistance received by poor households varies according to household type.

Dual-parent households in poverty received 24 percent of their income from government cash assistance and 17 percent from in-kind assistance (table 3). The largest component of government assistance to poor dual-parent households was EITC (11 percent), followed by Medicaid (7 percent), AFDC/GA (6.5 percent), and food stamps (6 percent).

Single-parent households in poverty received 34 percent of their income from government cash-assistance and 24 percent from government in-kind assistance. The largest components of government assistance to poor single-parent households were AFDC/GA (17 percent), food stamps (13 percent), EITC (9 percent), and SSI (7 percent).

Single-adult and multi-adult households without children received similar proportions of their income from government cash assistance (22 and 24 percent, respectively) and both received 14 percent from government in-kind assistance. The largest components of government assistance to these households were SSI (15 and 17 percent, respectively), Medicaid (7 and 6 percent, respectively), and food stamps (4 and 5 percent, respectively).

Poor elderly households received 17 percent of their income from government cash assistance and approximately 12 percent from government in-kind assistance. The largest components of government assistance to poor elderly households were SSI (16 percent), Medicare (6 percent), and food stamps (3 percent). (Recall that Social Insurance payments, including Social Security, are included in base income because they are linked to contributions from wages prior to retirement. However, because low-income retirees receive Social Security payments at a higher proportion to their lifetime contribution than do higher income retirees, Social Security benefits have contributed to alleviating poverty for the elderly. In 1996, elderly households received 34 percent of their income from Social Insurance and poor elderly households received 62 percent.)

Defining a Household

The "household" is a primary unit of analysis for many statistics compiled by the U.S. Government, and yet the exact meaning of the term is often confusing to all but those who actually compile the statistics. In this paper, we define a household as:
(1) All members living in the same housing unit who are related by blood, marriage, adoption, or other legal arrangements; or (2) a person living alone or sharing a household with others, or living as a roomer in a private home or lodging house, or in permanent living quarters in a hotel or motel, but who is financially independent.

For the analysis in this article, five household types are differentiated:

Dual-parent households: Households composed of a married couple and at least one child (under 18 years of age). The household head is under 65 years of age.

Single-parent households: Households composed of one working-age adult with one or more children. The vast majority of single-parent households are headed by women (85 percent in 1996).

Multi-adult households: Households composed of more than one adult and no children. The household head is under 65 years of age.

Single-adult households: Households composed of one working-age adult without children.

Elderly households: Households composed of any number of adults or children. The household head is 65 years of age or over.

Welfare Assistance Raises Incomes, But Most Recipients Remain in Poverty

While average income for all households increased by only 6 percent with the addition of cash and in-kind assistance, average income for specific household types increased far more dramatically (fig. 1). Average incomes of poor elderly households increased 42 percent with the addition of government cash and in-kind assistance, average incomes of poor single-adult households increased 57 percent, poor multi-adult households without children 64 percent, and poor dual-parent households 68 percent. Poor single-parent households' incomes increased 140 percent with the addition of government cash and in-kind assistance.

Despite the dramatic impact of welfare assistance on the average income for single-parent households, 30 percent of people living in these households remained in poverty after the addition of government assistance income. Thirty-four percent of children living in single-parent households remained below the poverty level after government cash and in-kind assistance payments.

In fact, the majority of poor households of every household type remained poor after the addition of government cash and in-kind assistance. Eighty-eight percent of poor people in single-adult households remained poor after government assistance was added to base income; 78 percent of those in multi-adult households; 73 percent of those in elderly households; 69 percent of those in single-parent households and 55 percent of those in dual-parent households.

Even though low-income single-parent families and dual-parent families received similar average assistance payments in 1996, assistance income was more successful in pulling dual-parent households out of poverty. (Dual-parent households—average household size of four members—received an average of $7,010 in government assistance, and single-parent households—average household size of three members—received an average of $6,740). The addition of government cash and in-kind assistance to the base income of dual-parent households reduced the number of people in those households living in poverty by 45 percent, compared with a reduction of 31 percent for single-parent households. Much of this result is explained by the fact that a large percentage of single-parent households were in severe poverty; that is, they had incomes below 50 percent of the poverty line. Although the addition of government assistance income raised these households out of severe poverty, it was not sufficient to raise them out

Table 3
Sources of Income Vary Across Households

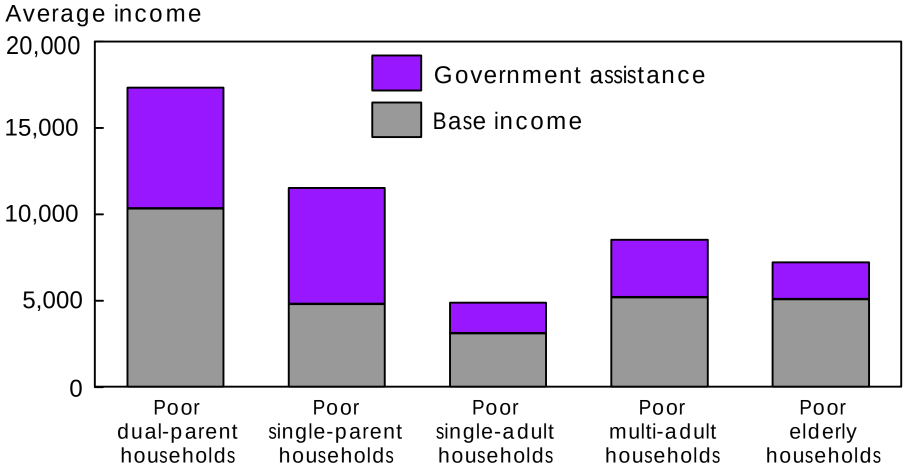
Household type	Base income	SSI	AFDC/GA	Education assistance	EITC	Total cash assistance
			Percent			
Dual parent	97.4	0.2	0.2	0.4	0.5	1.3
Non-poor	98.2	.1	.1	.4	.3	.8
Poor	59.6	5.2	6.5	.6	11.4	23.7
Multi-adult	97.7	.3	0	.6	.1	1.0
Non-poor	98.0	.1	0	.6	.1	.8
Poor	60.9	17.2	3.7	1.8	2.0	24.6
Single parent	83.8	1.4	3.3	1.0	3.7	9.4
Non-poor	92.8	.3	.4	.8	2.6	4.1
Poor	41.7	6.7	16.9	1.7	8.5	33.8
Single adult	97.1	.6	.1	1.0	0	1.8
Non-poor	98.5	.1	0	.9	0	1.0
Poor	63.8	15.0	3.0	3.0	1.0	21.9
Elderly	84.2	.7	.1	.1	.1	1.0
Non-poor	84.7	.2	0	.1	.1	.4
Poor	70.3	15.6	1.1	.1	.3	17.2
Total	94.7	.4	.3	.5	.4	1.7

Notes: Base Income includes wages, salaries, self-employment income, dividends, interest, rent, retirement, social insurance, unemployment compensation, interhousehold transfers, and other miscellaneous income. Poor denotes household income below the povery line. Source: ERS calculations based on the 1996 Current Population Survey.

of poverty altogether. For single-parent households in 1996, the share of severely poor dropped from 29 percent to 9 percent with the addition of assistance income.

Although cash and in-kind assistance accounted for a very small proportion of national household income in 1996, the most economically vulnerable households received an important share of their income from welfare programs. In particular, low-income single-parent households received well over half of their incomes from government assistance programs. For these households, AFDC/GA and food stamps alone accounted for 30 percent of income in 1996. The fact that assistance income was not adequate to raise many low-income households above the poverty line attests to the financial problems these households face, even with welfare assistance, and to the difficult task facing States as they design and implement new welfare programs.

Figure 1
Average Income of Poor Single-Parent Households Increased 140 Percent With Government Assistance...But Many Still Poor



Source: ERS calculations based on 1996 Current Population Survey.

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Medicare	Medicaid	Food stamps	School lunch	Housing subsidy	Energy assistance	Total in-kind assistance
			Percent			
0.3	0.6	0.2	0.2	0	0	1.3
.3	.5	.1	.1	0	0	1.0
.9	6.8	6.2	2.5	.1	.1	16.7
.9	.3	.1	0	0	0	1.3
.9	.3	0	0	0	0	1.2
2.7	6.3	4.9	.1	.2	.2	14.5
.6	2.5	2.7	.9	.1	.1	6.9
.6	1.6	.4	.4	0	0	3.1
.6	6.4	13.3	3.3	.6	.3	24.5
.4	.5	.2	0	0	0	1.1
.3	.2	0	0	0	0	.6
2.5	7.4	3.6	0	.5	.2	14.3
14.1	.5	.1	0	0	0	14.8
14.3	.5	0	0	0	0	14.9
6.2	2.5	2.8	.3	.5	.3	12.5
2.6	.6	.3	.1	0	0	3.6

Welfare Reform Affects USDA's Food-Assistance Programs

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The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) made fundamental changes to the Nation's welfare system. Underlying these changes was the belief that the long-term guarantee of benefits contributes to the chronic welfare dependency of many families in this country. The primary goal of the law was to reduce long-term welfare dependency while simultaneously preserving the function of Government assistance as a safety net for families experiencing temporary financial problems.

The comprehensive Act contained provisions with far-reaching implications in a number of areas and across a wide range of welfare programs. This article focuses on those provisions having a significant impact on USDA's food-assistance programs, notably modifications of the Food Stamp and Child Nutrition Programs, restrictions on the eligibility of most legal immigrants for Government assistance, and the replacement of the Aid To Families With Dependent Children (AFDC) Federal program with a lump-sum payment, or "block grant," to States. Preliminary analysis suggested that the provisions affecting USDA's food-assistance programs alone would account for almost half of the Act's projected $54-billion reduction in Federal spending over 1997 to 2002.

The Act Eliminates Food Stamp Benefits for Some

The Act reauthorized the Food Stamp Program through fiscal 2002. Although the Act made major changes in the Food Stamp Program, the Nation's principal nutrition-assistance program, it remains an entitlement program. That is, food stamp benefits will be provided to anyone who meets the eligibility requirement, and the program will not be block-granted (see "Spending on Food-Assistance Programs Decreased in 1997," elsewhere in this issue for more information on the Food Stamp Program). The Act's most important changes to the Food Stamp Program were the elimination of benefits to most legal immigrants (illegal immigrants have always been ineligible to participate in the program), the requirement for able-bodied adults without dependent children to meet new work requirements to receive food stamps, and a general reduction in food stamp benefits.

Under the Act, legal immigrants are ineligible for the Food Stamp Program until they become citizens, have worked in the United States for at least 10 years (under certain circumstances, the work of a spouse or parent can be credited to a qualified legal alien), or are veterans of U.S. military service with an honorable discharge. Children born in the United States to ineligible immigrants are U.S. citizens and therefore may be eligible for food stamps even though their parents are not. Legal immigrants who are refugees or who have been granted asylum are eligible for food stamps during their first 5 years in the United States. Legal immigrants who were receiving food stamps when the Act was enacted but who are now made ineligible by the Act, are prohibited from participating in the Food Stamp Program after August 22, 1997.

The Act stipulates that able-bodied recipients ages 18 to 50 with no dependents can receive food stamp benefits for only 3 months in every 36-month period, unless they are: 1) working at least 20 hours a week; 2) participating in a work or employment and training program for at least 20 hours a week; or 3) participating in some type of "workfare" program. Searching for a job or participating in job-search training does not qualify as work. Exempted from this new work requirement are those who are physically or mentally unfit for employment, preg-

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nant women, those responsible for the care of an incapacitated person, postsecondary students already meeting program eligibility requirements, participants in substance-abuse treatment programs, and persons meeting unemployment compensation requirements. If the recipient finds work and then is laid off, an additional 3 months of benefits are allowed once in the 36-month period.

The Act offers waivers to this provision in recognition of the difficulties that some low-skilled workers face in finding and keeping permanent employment. Upon a State's request, USDA will automatically grant a waiver for areas in which the average unemployment rate in the past 12 months was greater than 10 percent. Because a 12-month average will mask portions of the year when unemployment rises above 10 percent, and also requires a sustained period of unemployment before an area becomes eligible for a waiver, States may opt to use a shorter moving average, such as a 3-month average. States may use historical unemployment trends to anticipate the need for waivers during certain periods in areas with predictable seasonal variations in unemployment. Because of the wide variation in local employment conditions within a State, States may request waivers at the county, city, or town level, or some combination thereof. Waivers will be granted for a maximum of 1 year, but they can be renewed if these conditions persist.

Because the unemployment rate alone is not always an adequate indicator of the employment prospects of people with limited skills and minimal work histories, the Act also provides States the opportunity to request waivers for areas where there are too few jobs for such people. Since there is no one standard method to determine the sufficiency of jobs in an area, States can use a number of criteria when requesting waivers for areas with insufficient jobs. USDA makes decisions to approve waivers due to an insufficient number of jobs on a case-by-case basis.

As of March 1998, areas in 43 States and the District of Columbia had been granted waivers of the work requirements for able-bodied adults without dependents because of either insufficient jobs or unemployment greater than 10 percent. USDA has estimated that about 35 percent of the people who would

Important Dates

August 22, 1996

President Clinton signs into law the Personal Responsibility and Work Opportunity Reconciliation Act.

Legal immigrants not enrolled as of this date are barred from the Food Stamp Program until they become citizens or are exempted based on work history or veteran, refugee, or asylee status.

November 14, 1996

Louisiana becomes the first State to receive waivers from the new food stamp work requirements for able-bodied adults without dependents in areas with an unemployment rate greater than 10 percent or in areas where there are too few jobs to provide employment.

March 1, 1997

Under the Act's able-bodied work provision, States can begin to terminate food stamp benefits for jobless adults age 18 to 50 who have used 3 months of benefits in a 3-year period.

June 12, 1997

The Murray/Gorton Amendment (P.L. 105-18) is signed into law. Under the amendment, USDA may grant approval for a State to issue food stamp benefits to people who would otherwise lose Federal Food Stamp Program benefits as a result of the non-citizen restrictions or able-bodied adult work requirements.

July 1, 1997

This is the deadline for States to submit to the U.S. Department of Health and Human Services their required plans outlining how they intend to conduct their TANF program. Once States submit their TANF plans, the work requirements and 5-year time limit begin.

The Child and Adult Care Food Program's two-tier reimbursement system becomes effective.

August 5, 1997

The 1997 Balanced Budget Reconciliation Act is enacted. As a result of a provision in the Act, States may exempt an additional 15 percent of able-bodied adults without dependents who are not otherwise exempt from the 3 months in 3 years time limit.

August 22, 1997

Ineligible legal immigrants are prohibited from participating in the Food Stamp Program.

September 30, 2002

The Food Stamp Program is reauthorized through this date.

October 1, 2002

All States are required to have implemented Electronic Benefit Transfer (EBT), unless granted a waiver by USDA.

otherwise be affected by this provision lived in areas covered by a waiver.

Several recent pieces of legislation have modified the impact of the Welfare Reform Act on legal immigrants and able-bodied adults without dependents. As a result of the Murray / Gorton Amendment (P.L. 105-18, signed into law on June 12, 1997), States, with approval from USDA, may now establish their own benefit programs for people ineligible for the Federal Food Stamp Program due to the Act's noncitizen restrictions or work requirements for able-bodied adults. However, the State must pay USDA the value of the benefits issued and all other Federal costs incurred in providing the benefits (including the cost of printing, shipping, and redeeming the food stamp coupons). This option offers States a more efficient, less expensive means of providing food assistance to ineligible legal immigrants and able-bodied adults than would establishing their own food voucher program. As of January 1998, USDA had approved nine State-funded benefit plans for Washington, New York, Rhode Island, Nebraska, New Jersey, Maryland, Florida, California, and Illinois to serve all or part of their legal immigrant population made ineligible for food stamps due to welfare reform.

As a result of the 1997 Balanced Budget Reconciliation Act, enacted August 5, 1997, States may allow 15 percent of able-bodied adults without dependents who have used up their 3 months of benefits to remain in the Food Stamp Program. The 15 percent is in addition to those who are exempt through statutory exemptions or USDA-approved waivers. The Balanced Budget Reconciliation Act also provided additional 100 percent Federal employment and training funding for States to use in creating training and workfare opportunities for able-bodied adults without dependents.

Income and Asset Eligibility Standards for Food Stamps Are Modified

In order to receive food stamps, households must meet both a gross and net income test as well as an asset test. Gross income includes most cash income and excludes most noncash, or in-kind benefits. Under the Act, some energy assistance will now be considered part of the recipient's gross income (Federal energy assistance will still be excluded), and households are required to include the earnings of students over age 17 (instead of age 22) in secondary schools as part of their gross income.

Net income is gross income minus six allowable deductions: a standard deduction, and deductions for earned income, dependent care, medical expenses, child support, and excess shelter expenses (this accounts for the effect of higher than average shelter costs on a low-income household's ability to purchase food). The new law freezes the standard deduction at its 1996 level ($134 for the 48 contiguous States and Washington, DC) and will not adjust the deduction for future inflation. As a result of the Act, the excess shelter deduction, which is equal to shelter costs (such as rent or mortgage payments) that exceed half of the household's income once other deductions are taken into consideration, is limited through fiscal 2001, and frozen at fiscal 2001 levels thereafter (under prior legislation, the limit on excess shelter expenses was scheduled to be removed in 1997).

To receive food stamps, households may not have more than $2,000 in countable assets ($3,000 if the household contains a person age 60 or over). The new Act requires that the fair market value of certain vehicles over $4,650 be counted toward the asset limit, and this threshold will not be indexed for inflation (under the prior law, this threshold was scheduled to be increased to $5,000 in October 1996 and indexed for inflation thereafter).

Food Stamp Benefits Are Reduced

Changes in how net income is calculated affect not only food stamp eligibility but also food stamp benefits, since an individual household's food stamp allotment is equal to the maximum allotment for that household's size, less 30 percent of the household's net income. The maximum food stamp allotment is based on the cost of USDA's Thrifty Food Plan, a low-cost model food plan that meets standards for a nutritious diet and is adjusted annually to reflect changes in the cost of food. As a result of the Act, the maximum food stamp allotment is equal to 100 percent of the cost of the Thrifty Food Plan rather than the prior 103 percent. (However, the amount of food stamp benefits a household received in fiscal 1997 could not be less than the amount it received in fiscal 1996 as a result of this provision.)

Act Increases States' Flexibility

The 1996 Act simplifies administration of the Food Stamp Program by expanding States' flexibility in setting requirements for service, such as by waiving office interviews for elderly or disabled applicants. States also have the option to operate a Simplified Food Stamp Program for households in which members participate in the Temporary Assistance for Needy Families Program (TANF), a cash welfare block grant created by the welfare reform act to replace AFDC, which was the Nation's major cash assistance program to poor families. Under the Simplified Food Stamp

Program, States may determine food stamp benefits using TANF rules (which may be more or less restrictive than Food Stamp Program rules), regular food stamp rules, or a combination of the two, as long as the State's simplified program does not increase Federal food stamp costs.

States will also have greater flexibility in running the Food Stamp Program Employment and Training Program, designed to help household members gain job skills and training. The Act increases Federal funding for the program each year, with $75 million budgeted in fiscal 1996, $79 million in fiscal 1997, $81 million in fiscal 1998, and $84 million in fiscal 1999. Funding will then increase by $2 million per year until fiscal 2002. (However, the 1997 Balanced Budget Reconciliation Act further increased Federal funding for the program so that it will now total $212 million in fiscal 1998, $215 million in fiscal 1999, $217 million in fiscal 2000, $219 million in fiscal 2001, and $165 million in fiscal 2002. States are required to spend at least 80 percent of the employment and training funds to serve food stamp recipients who are required to participate in work activities under the able-bodied-adults-without-dependents provision.)

Other Changes in the Food Stamp Program

The new law prohibits an increase in food stamp benefits when a household's income is reduced because of a penalty imposed under an income-based public-assistance program, such as failure to comply with the TANF program's work requirements. States may disqualify individuals from the Food Stamp Program if they are disqualified from another public-assistance program for failing to perform a required action under that program. The Act strengthens penalties for fraudulent behavior or trafficking in food stamps (selling or buying food stamps for cash or nonfood items). It doubles penalties for food stamp recipients who commit fraud. Individuals convicted of trafficking in $500 worth of food stamps or more are permanently disqualified from receiving food stamps. Those convicted of fraudulently receiving multiple benefits are disqualified for 10 years. The Act disqualifies most individuals who were convicted of a felony after August 22, 1996, for using, possessing, or distributing illegal drugs, although States may opt out of this provision. The Act also improves USDA's ability to monitor foodstore compliance by establishing new reporting requirements.

The 1996 Act also requires States to implement an Electronic Benefit Transfer (EBT) system for distributing food stamp benefits before October 2002 unless granted a waiver by USDA. It also exempts food stamp EBT systems from Regulation E, which limits the liability for loss resulting from the unauthorized use of electronic funds transfer cards. This exemption means that food stamp recipients would bear the full responsibility for benefits lost through the unauthorized use of their EBT cards. (See "All Food Stamp Benefits To Be Issued Electronically," elsewhere in this issue for more information on electronic food stamp benefits.)

Child Nutrition Programs Are Also Affected

Although the Act's biggest changes are to the Food Stamp Program, other food-assistance programs will be affected as well. The most substantive changes include restructuring reimbursement rates in the Child and Adult Care Food Program and reducing subsidies in the Summer Food Service Program. The Act also lets States determine the eligibility of illegal aliens to receive benefits from the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Summer Food Service Program; Child and Adult Care Food Program; Special Milk Program; Commodity Supplemental Food Program; The Emergency Food Assistance Program (TEFAP); and the Food Distribution Program on Indian Reservations.

The Child and Adult Care Food Program provides meals and snacks in childcare centers, family daycare homes, and adult daycare centers. The program ensures that children and adults receive healthy meals by reimbursing participating daycare operators for meal costs and providing them with selected foods. Prior to the welfare reform act, Federal subsidy rates for meals and snacks served to children in eligible family daycare homes did not differentiate by the family income of the child, unlike payments to childcare and adult care centers. About two-thirds of the spending for meals in these family daycare centers was for children that were not poor. The new Act institutes a two-tier system of reimbursements where family daycare homes in low-income areas, or whose own households are low-income, are reimbursed at rates similar to those provided before the Act (tier I). However, the reimbursement rate for meals served at family daycare centers in middle- and upper-income neighborhoods is reduced to $0.98 for lunch / supper and $0.33 for breakfast (tier II), compared with $1.62 and $.88 in tier I homes for the July 1997 to June 1998 period. Tier II homes may elect to receive higher tier I subsidies for meals / snacks served to children who are documented as coming from households with income below 185 percent of the poverty guidelines ($29,693 for a family of four in 1997).

Several provisions of the Act affect the Summer Food Service Program, which provides free meals to low-income children during

Who Are Most likely To Be Affected by the Act's Food Stamp Program Provisions

In fiscal 1995, an average of 27 million people participated in the Food Stamp Program each month. Slightly over half of the food stamp recipients were children. Whites (41 percent) and African-Americans (35 percent) made up over three-quarters of all recipients according to a 1995 sample, the most current year for which socioeconomic data are available for all participants as well as for permanent residents and able-bodied recipients (see table). Among adult recipients 18 years and older, 70 percent were female, 43 percent lacked a high school degree, and only 16 percent were employed.

Several of the Act's provisions reduce the level of food stamp benefits. For example, the reduction in food stamp benefits, from 103 percent of the cost of the Thrifty Food Plan to 100 percent, will reduce the amount of benefits for food stamp recipients across the board. Freezing the standard deduction (which is subtracted from gross income to derive net income) reduces the level of food stamp benefits for most participating households (households with no or very low income will not be affected). The relative impact of freezing the standard deduction will be greater in later years, as the effects of not adjusting for inflation accumulate over time.

Limits on excess shelter deductions will limit the food stamp benefits for families with higher than average shelter costs. The General Accounting Office estimates that in absence of the cap on the excess shelter expense deduction in 1995, food stamp benefits for the 1.1 million households (or about 10 of all food stamp households) affected by the cap would have increased by an average 12 percent. Households affected by the cap on excess shelter deductions are more likely to have more household members, contain children, be headed by a single female, and be located in the Northeast and West.

Other provisions in the Act are expected to affect eligibility in the Food Stamp Program. A recent FNS-sponsored report by Mathematica Policy Research profiled the recipients who are the most likely to lose their eligibility in the Food Stamp Program—legal immigrants and able-bodied, unemployed adults without dependents.

Legal Immigrants

There were an estimated 1.4 million permanent resident aliens receiving food stamps in 1995, or 5 percent of the total food stamp population. Based on this number and adjusting for those with veterans status and satisfying the years of work requirement, FNS estimates that about 900,000 legal immigrants were expected to lose eligibility in 1997 as a result of the Act's restrictions on Food Stamp Program participation by legal immigrants. Permanent resident aliens differed from other food stamp recipients in several ways. Only 17 percent of the permanent residents were children less than 18 years of age, compared with over half of all food stamp recipients. Hispanics constituted 54 percent of all permanent resident aliens and Asians and Pacific islanders accounted for another 20 percent, while these two groups combined accounted for only 22 percent of all food stamp recipients.

Permanent resident alien households were larger, containing an average of 3 members compared with 2.5 people for all food stamp households. Although children accounted for only 17 percent of all permanent resident aliens, two-thirds of all permanent resident households contained children (many of whom were U.S. citizens).

Able-Bodied Adults

In 1995, an estimated 1.3 million people, or about 5 percent of all food stamp recipients, would have been subject to the Act's work requirement for able-bodied adults (18 to 50 years of age). This represents the upper estimate of the number of people who could lose their eligibility, as the report did not contain all the information needed to determine eligibility for each individual. For example, some may have been granted waivers for residing in a high-unemployment area.

Unlike the total group of adult food stamp recipients, the majority (58 percent) of able-bodied recipients were male. Able-bodied adults also were more likely to reside in a small household; 74 percent of able-bodied recipients lived in one-person households, compared with only 29 percent of all food stamp recipients. By definition, able-bodied households did not contain children, while 60 percent of all food stamp households had at least one child residing in them.

The Act stipulates that able-bodied recipients can receive food stamp benefits for only 3 months in every 36-month period, unless they are working at least 20 hours a week or participating in a work or employment and training program or workfare program. At the time of the report, only 4 percent of all able-bodied recipients were employed and over two-thirds had received food stamp benefits for over 3 consecutive months. An estimated 4 percent of all able-bodied adults (55,000 persons) were permanent resident aliens who, therefore, also would have been subject to the legal immigrant provisions of the Act.

Selected Characteristics of Food Stamp Recipients, 1995

Selected characteristic	All food stamp recipients[1]	Permanent resident aliens[2]	Able-bodied recipients[2,3]
		Million	
All participants	27.0	1.4	1.3
		Percent	
Age:			
Under 18 years	52	17	0
18-59 years	41	66	100
60 years and over	7	17	0
Sex:			
Male	41	36	58
Female	60	64	42
Race/ethnicity:			
White (non-Hispanic)	41	14	43
Black (non-Hispanic)	35	8	41
Hispanic	18	54	11
Asian or Pacific Islander	3	20	2
Other or unknown	3	4	3
		Million	
Adult recipients (18 years of age and over)	13.0	1.2	1.3
		Percent	
Sex:			
Male	30	NA	58
Female	70	NA	42
Education:[4]			
Less than high school	43	65	41
High school	43	24	44
Some college	14	12	15
Employment status:			
Employed	16	19	4
Unemployed	9	6	20
Not in labor force	71	71	76
Unknown	4	4	0
		Thousand	
Total households participating	10,883	958	NA
		Persons	
Average size	2.5	3	1.3
		Percent	
Households with children	60	66	0
		Dollars	
Average monthly food stamp benefit per household	172	196	NA

Notes: NA = Not available. [1]Source: U.S. Department of Agriculture, Food and Consumer Service. *Characteristics of Food Stamp Households, Fiscal Year 1995*. April 1997. [2]Source: Mathematica Policy Research, Inc. *Characteristics of Childless Unemployed Adult and Legal Immigrant Food Stamp Participants: Fiscal Year 1995*. Reference No. 8370-003. Feb. 13, 1997. [3]All able-bodied recipients were 18-50 years of age. [4]Based on those adults reporting education status.

school vacations. The program is operated in low-income areas by sponsors who are reimbursed by USDA for the meals they serve. In order to more closely conform operating subsidies to those paid in other child-nutrition programs, the Act reduces reimbursement rates for the Summer Food Program from $2.23 to $2.02 per lunch and from $1.24 to $1.16 per breakfast. The new rates will be indexed annually for inflation. The Act also eliminates startup and expansion grants that were used for initiating and expanding both the Summer Food Service and School Breakfast Programs.

TANF Program Impacts Food-Assistance Programs

One of the Act's most important changes to the Nation's welfare system was the replacement of four cash welfare programs, including AFDC, with the TANF program. Federal spending for the TANF block grant is capped at $16.4 billion per year through fiscal 2002 (the Federal Government was expected to spend $15.9 billion on AFDC and related programs in fiscal 1997). Each State is entitled to a portion of the grant, based on the amount of Federal money it has received for AFDC and related programs in recent years. States can receive supplemental grants in addition to the basic block grant under certain circumstances, such as unusually high population growth or an increase in the number of food stamp recipients. To receive their full TANF block grant, States are required to continue to spend some of their own resources, based on historical State spending levels, on behalf of TANF-eligible families.

The Act increases State flexibility in providing assistance to low-income families. States are granted wide latitude in using their block grant allocation, but are required to have objective criteria for delivering benefits and determining eligibility and must ensure fair and equitable treatment. TANF benefits do not have to be in the form of cash. For example, they could be used for employment-placement programs or to provide childcare services. Block grant funds may be spent only on needy families with (or expecting) a child. As of July 1, 1997, all 50 States and the District of Columbia had begun implementing their TANF programs.

The Act ends an individual's entitlement to cash welfare payments provided under the old AFDC program by making TANF benefits temporary and provisional. Families are limited to receiving TANF benefits for a maximum of 5 years, whether or not consecutive, or less at the States' option. (Twenty-one States have opted for time limits of fewer than 5 years.) However, States are permitted to exempt up to 20 percent of their recipients from the time-limit provision. Most adults participating in the program are required to work after 2 years, or less at the States' option, in order to continue receiving benefits. (Twenty-one States have opted to require participating adults to work after fewer than 2 years.) States may exempt from work requirements single parents of children under age 1. States are required to have a specific and gradually increasing percentage of their adult welfare recipients in work activities, or the States will face a reduction in their TANF block grants.

The replacement of the AFDC program with the TANF program indirectly affects the Food Stamp Program. For households participating in the Food Stamp Program, the amount of their food stamp benefit is based on several factors, including their net monthly income. TANF cash benefits are included in countable income. Thus, for every additional dollar of TANF cash benefits, food stamp benefits are reduced by 30 cents (conversely, food stamp benefits increase 30 cents for every dollar decrease in TANF cash benefits). If TANF lowers average cash payments below what recipients would have gotten under the AFDC program, food stamp benefits to these families will increase if they are not able to increase their income from other sources. (Recipients who fail to fulfill TANF provisions may have their food stamp benefits reduced.)

The loss or reduction of AFDC benefits can mean a significant reduction in income for some food stamp households (see "How Government Assistance Affects Income," elsewhere in this issue). Data based on a sample of food stamp households in 1996 indicated that 37 percent of all food stamp households received AFDC payments, including 61 percent of all food stamp households with children. Income from the AFDC program represented 69 percent of gross income for those food stamp households participating in the AFDC program.

Act Will Reduce Federal Spending for Food Assistance

The Welfare Reform Act is expected to significantly reduce Federal spending on the Food Stamp and Child Nutrition Programs over what would have been spent under prior legislation. The Congressional Budget Office, in a study completed prior to the Act's enactment, estimated that the Act would reduce total Federal spending by $54.2 billion over 1997 to 2002, nearly half of which was attributed to cuts in the Food Stamp Program and (to a lesser degree) child nutrition programs. However, because many factors that can affect the Act's budgetary impacts are difficult to predict, estimates at this time are speculative.

For example, the degree to which the Act's provisions reduce Food Stamp Program expenditures depends in part on how many people would have participated in the program under the prior provisions. Food Stamp Program participation responds to economic conditions, expanding when the economy is in recession, and contracting when the economy is growing and job opportunities and wages are favorable. Some recipients cut from the Food Stamp Program may find increased income opportunities in a growing economy and would have left the Food Stamp Program anyway. Because of the improvement in the Nation's economy in recent years, food stamp participation was in decline even before the enactment of the Act, thereby lessening its impact in fiscal 1997. Conversely, an economic downturn in the future could increase the impact of the Act on Federal food-assistance spending (see "Economic Growth, Welfare Reform, and the Food Stamp Program," elsewhere in this issue).

Other impacts will depend on how States implement their newfound flexibility. Some States are still working to develop plans for implementing Simplified Food Stamp Programs, which may be more restrictive than current Food Stamp Program rules. The degree to which States request future waivers to exempt food stamp recipients from the work requirement for able-bodied adults because they reside in areas with an unemployment rate greater than 10 percent or in areas where there are too few jobs to provide employment will also affect Food Stamp Program outlays.

Future legislation may revise various aspects of the Act. Already recent legislation has modified the impact of the Act on legal immigrants and able-bodied adults without dependents. The Congressional Budget Office has estimated that the Balanced Budget Act of 1997, which allows States to continue food stamp benefits past the 3-month limit for up to 15 percent of the able-bodied adults with no dependents and provides additional Food Stamp Employment and Training Program funds, will increase food stamp expenditures by $1.5 billion from fiscal 1998 to 2002.

The future cost of the Food Stamp Program is also indirectly affected by the Act's changes to other welfare programs, such as the TANF program. However, some of these provisions have yet to be implemented. For example, many adults currently participating in the TANF program have not yet encountered their time limit on receiving welfare benefits. Much of the success of the Act in reducing both welfare dependency and Federal spending will ultimately depend on the degree to which welfare recipients obtain jobs that make them self-sufficient.

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Spending on Food-Assistance Programs Decreased in 1997

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USDA administers the Nation's major domestic food-assistance programs whose goals are to provide needy people with access to a more nutritious diet, to improve the eating habits of the Nation's children, and to help America's farmers by providing an outlet to distribute foods purchased under commodity price-support and surplus-removal programs. Food-assistance programs differ by the population groups they serve and the types of benefits provided (see box on domestic food-assistance programs).

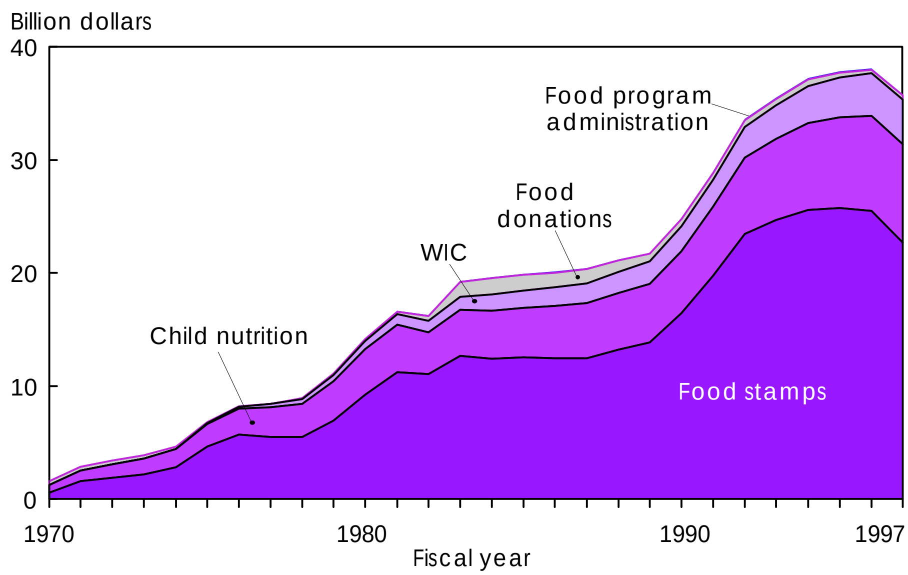
USDA expenditures on food-assistance programs totaled $35.8 billion in fiscal 1997, a decrease of almost 6 percent from the previous year (expenditures for the programs cited in this article refer to the cost to the Federal Government during fiscal years, which run October to September). This decline in annual food-assistance program expenditures, the first since fiscal 1982, was in marked contrast to the double-digit growth experienced during the early 1990's when deteriorating economic conditions, particularly increased unemployment, increased the demand for food assistance (fig. 1). The Food Stamp Program accounted for much of the decrease in total food-assistance expenditures in fiscal 1997; expenditures for most of the other food-assistance programs increased.

Food Stamp Program Costs Decline Significantly

The Food Stamp Program is the Nation's principal nutrition-assistance program, accounting for 60 percent of all USDA food-assistance expenditures. Expenditures on the program totaled $21.5 billion in fiscal 1997, a decrease of almost 12 percent from fiscal 1996 (table 1). This decrease was largely the result of a decline in program participation. An average of 22.9 million people per month received food stamps in fiscal 1997—almost 2.7 million people, or 10 percent, fewer than in the previous year.

This decline in participation is attributed, in part, to the continuation of improving economic conditions. Since reaching its historic peak in fiscal 1994, food stamp participation has declined in each of the last 3 years (fig. 2). Changes in the Food Stamp Program brought about

Figure 1
Expenditures for Food Assistance Decreased in Fiscal 1997



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by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 also contributed to the decline in participation. Legal immigrants (except for persons admitted as a refugee or asylee within the last 5 years, and veterans with an honorable discharge and their families) who were not enrolled in the Food Stamp Program as of August 22, 1996, are barred from the program until they become citizens or have worked in the United States for at least 10 years. As of August 22, 1997, all immigrants previously enrolled but who are now made ineligible by the Act were barred from the Food Stamp Program. As of March 1, 1997, States could termi-

Figure 2

Food Stamp Participation Dropped Sharply in Fiscal 1997

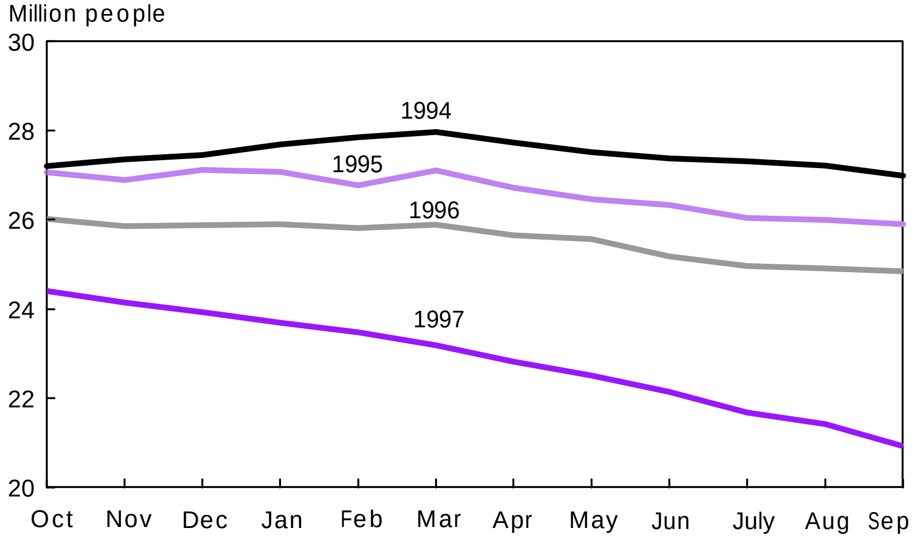


Table 1

The Food Stamp Program Accounted for the Bulk of the Decline in Expenditures in Fiscal 1997

Food-assistance program	1997 program costs	1996 program costs	Change in costs, 1996-97
	Million dollars	*Million dollars*	*Percent*
Food-stamp-related programs[1]	22,672.6	25,484.2	-11.0
Food Stamp Program	21,488.2	24,330.8	-11.7
Nutrition Assistance Programs	1,184.4	1,153.4	2.7
Child nutrition programs[2]	8,707.4	8,392.1	3.8
National School Lunch	5,553.8	5,354.8	3.7
School Breakfast	1,214.3	1,118.8	8.5
Child and Adult Care[1]	1,573.0	1,534.1	2.5
Summer Food Service[1]	242.7	249.7	-2.8
Special Milk	17.4	16.8	3.6
Supplemental food programs	3,943.3	3,795.6	3.9
WIC[1]	3,844.6	3,695.3	4.0
CSFP[1]	98.7	100.2	-1.5
Food donation programs	415.7	306.7	35.5
Food Distribution on Indian Reservations[1]	71.2	70.2	1.4
Nutrition Program for the Elderly	145.2	145.0	.1
Disaster Feeding	1.1	.7	57.1
TEFAP[3]	191.9	44.5	NA
Charitable Institutions and Summer Camps	6.3	11.0	-42.7
Soup Kitchens and Food Banks[3]	NA	35.3	NA
All programs[4]	35,845.9	38,084.1	-5.9

Notes: NA = Not applicable. [1]Includes administrative costs. [2]Total includes the Federal share of State Administrative costs, which were $106.3 million in fiscal 1997 and $118.0 million in fiscal 1996. [3]In fiscal 1997, The Emergency Food Assistance Program (TEFAP) and the Food Donation Programs to Soup Kitchens and Food Banks were combined into a single program. They are reported under TEFAP. [4]Total includes Federal administrative expenses of $106.9 million in fiscal 1997 and $105.5 million in fiscal 1996. Source: USDA's Food and Nutrition Service, Keydata September 1997 (revised). Data subject to change with later reporting.

nate food stamp benefits for jobless able-bodied adults with no dependents who had used up their 3 months of eligibility in a 3-year period. (Several subsequent pieces of legislation modified the impact of the Welfare Reform Act on able-bodied adults without dependents and legal immigrants—see "Welfare Reform Affects USDA's Food-Assistance Programs," elsewhere in this issue for more information.)

Domestic Food-Assistance Programs

USDA's food-assistance programs are administered by the Food and Nutrition Service (FNS), which works in partnership with the States. States, using national guidelines, are responsible for determining whether people are eligible to participate in the programs and for the delivery of services. FNS shares administrative costs with the States. The programs are:

- As the cornerstone of USDA's food-assistance programs, the **Food Stamp Program** enables participating households to obtain a better diet by increasing their food purchasing power. Unlike the other food-assistance programs that target specific groups, the Food Stamp Program is available to most households (subject to certain work and citizenship requirements) that meet income and asset criteria. Eligibility and benefits are based on household size, household assets, and gross and net income (gross monthly income cannot exceed 130 percent of the poverty guidelines). Most participants receive monthly allotments of coupons that are redeemable for food at nearly 200,000 authorized retail foodstores. However, a growing number of participants receive an Electronic Benefits Transfer (EBT) card, which operates like a bank card. The amount of a household's monthly food stamp allotment is based on USDA's Thrifty Food Plan, a market basket of suggested amounts of foods that make up a nutritious diet and can be purchased at a relatively low cost.

- The Food Stamp Program in Puerto Rico was replaced in 1982 by the **Nutrition Assistance Program**. In the same year, the Nutrition Assistance Program for the Northern Marianas was started. The program for American Samoa was started in 1994. These modified food stamp programs receive Federal funds through block grants, which allow these areas to operate programs designed specifically for their low-income residents.

- The **National School Lunch Program** provides lunch to children in public and nonprofit private schools and residential child-care institutions. Schools receive cash and some commodities from USDA to offset the cost of foodservice. In return, the schools must serve lunches that meet Federal nutritional requirements and offer free or reduced-price lunches to needy children. Any child at a participating school may enroll in the program. Children from families with incomes at or below 130 percent of the poverty level are eligible for free meals, and those from families between 130 and 185 percent of the poverty level (between $20,865 and $29,693 for a family of four in 1997) are eligible for reduced-price meals. Children from families with incomes over 185 percent of poverty pay a full price, though their meals are still subsidized to some extent.

- The **School Breakfast Program** provides breakfast to school children, with students from low-income families receiving free or reduced-price meals. USDA provides schools with cash assistance to offset the cost of foodservice. Eligibility is the same as that for the National School Lunch Program. As an incentive for schools in low-income areas to participate in the program, a school may qualify for higher "severe needs" reimbursement rates if a specified percentage of its meals are served free or at a reduced price and the school can show that its food production costs exceed the standard breakfast reimbursement rates.

- The **Child and Adult Care Food Program** provides healthy meals and snacks to children in non-profit childcare centers and family and group daycare homes. In centers, children from low-income families are eligible for free or reduced-price meals based on the same eligibility guidelines used in the School Lunch and School Breakfast Programs. There are two sets of reimbursement rates for family daycare homes. Family daycare homes located in low-income areas, or whose own households are low-income, are reimbursed at one rate (tier 1), while other daycare home providers are reimbursed at a lower rate (tier II). In tier II homes, meals served to children who are identified as coming from households with income below 185 percent of poverty are eligible to be reimbursed at the higher tier I rate.

- The **Summer Food Service Program** provides free meals to children (age 18 and under) and handicapped people over 18 years of age during school vacations in areas where at least half of the children are from households with incomes at or below 185 percent of the Federal poverty guidelines. There is no income test for eligibility in these low-income areas; any child in the program's operating area may participate. Sites not in low-income areas may participate if at least half of the children are from families with incomes at or below 185 percent of the Federal poverty guidelines (based on

Also contributing to the decline in total expenditures for the Food Stamp Program in fiscal 1997 was a drop in the average food stamp benefit per recipient from $73.22 per month in fiscal 1996 to $71.34 per month in fiscal 1997.

In lieu of the Food Stamp Program, Puerto Rico, the Commonwealth of the Northern Marianas Islands, and American

income applications collected from program participants). All children at these sites may receive free meals. The program is operated at the local level by sponsors who are reimbursed by USDA.

- The **Special Milk Program** provides funding for milk in public and nonprofit schools, childcare centers, summer camps, and similar institutions that have no other federally assisted food program. Milk is provided either free or at low cost to all children at participating sites. Sites may elect to serve free milk to children from families with incomes at or below 130 percent of the poverty level.

- The **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)** provides nutritious supplemental foods, nutrition education, and healthcare referrals at no cost to low-income pregnant and postpartum women, as well as infants and children up to their fifth birthday who are determined by health professionals to be nutritionally at risk. To be eligible in most States, income must fall below 185 percent of the poverty guidelines. States can, however, set lower income limits. Food vouchers can be redeemed at retail foodstores for specific foods that are rich in the nutrients typically lacking in the target population.

- The **Commodity Supplemental Food Program (CSFP)** provides nutritious supplemental foods at no cost to infants and children up to their sixth birthday and pregnant and postpartum women, at or below 185 percent of poverty who are not served by WIC. The program also serves persons 60 years of age or over with incomes not greater than 130 percent of the poverty guidelines. The program provides food packages (instead of vouchers) tailored to the nutritional needs of the participants.

- The **Food Distribution Program on Indian Reservations** provides commodities to American Indians living on or near participating reservations who choose not to participate in the Food Stamp Program. It provides an alternative to the Food Stamp Program for many American Indians who live far from foodstores. Participants receive a monthly food package weighing about 50 to 75 pounds containing a variety of foods selected to meet their health needs and preferences. Eligibility is based on household income, resources, and proximity to a reservation.

- The **Nutrition Program for the Elderly** provides cash and commodities to States for meals for senior citizens. Administered by the U.S. Department of Health and Human Services, the program receives commodity foods and financial support from USDA. Food is served through meals-on-wheels programs or in senior citizen centers and similar settings. There is no income test for eligibility; all people age 60 or older and their spouses are eligible for the program.

- The **Disaster Feeding Program** is administered by the Federal Emergency Management Agency (FEMA), which is responsible for coordinating disaster relief. Under this program, USDA provides food commodities for assistance in major disasters or emergencies when other food supplies are not readily available.

- **The Emergency Food Assistance Program (TEFAP)**, which began as a cheese-giveaway program in 1982, was implemented as a way to reduce inventories and storage costs of surplus commodities through distribution to needy households. In 1989, Congress appropriated funds to purchase additional commodities specifically for this program. USDA buys the food, processes and packages it, and ships it to the States. States are allocated commodities and administrative funds based on a formula which considers the number of people below the poverty level in each State (60 percent) and the number unemployed (40 percent). Within broad guidelines, each State sets its own eligibility criteria and selects local emergency feeding organizations (including soup kitchens, food recovery organizations, and food banks) to distribute the food.

- Under the **Food Distribution Programs for Charitable Institutions and Summer Camps**, USDA donates food to nonprofit charitable institutions serving meals on a regular basis to needy persons and to summer camps for children. These institutions include orphanages, soup kitchens, temporary shelters, homes for the elderly, and church-operated community kitchens for the homeless. (Summer camps participating in the Summer Food Service Program are not eligible to receive commodities through this program.)

- Under the **Food Donation Programs to Soup Kitchens and Food Banks**, USDA purchased food specifically to distribute to soup kitchens and food banks. Effective in fiscal 1997, this program was absorbed into the TEFAP program.

Samoa receive grant funds which allow them to operate food-assistance programs designed specifically for their low-income residents. The Nutrition Assistance Program operates in Puerto Rico. Unlike the regular Food Stamp Program which automatically expands to meet increased demand when the economy is in recession and contracts when the economy expands, funding for the *Nutrition Assistance Program* is limited to an annual amount specified by law. USDA's funding for the Puerto Rico program totaled $1.2 billion in fiscal 1997, a 3-percent increase from the previous year. Funding for program in American Samoa totaled $5.3 million in fiscal 1997, the same as in fiscal 1996. Funding for the program in Commonwealth of the Northern Marianas Islands totaled $5.1 million in fiscal 1997, the same as in fiscal 1996.

Outlays for Child Nutrition Programs Grow Slightly

The Child Nutrition Programs—the National School Lunch, School Breakfast, Child and Adult Care, Summer Food Service, and Special Milk Programs—are designed to subsidize meals served to children in schools and a variety of other institutions. USDA provides cash reimbursements for all meals served under these programs, with children from low-income families eligible for larger subsidies. USDA also provides foods to these programs. Combined expenditures for these programs increased by almost 4 percent to $8.7 billion in fiscal 1997.

The National School Lunch Program, with 15 percent of all USDA food-assistance expenditures, is the second-largest food-assistance program behind the Food Stamp Program. Federal outlays for the program totaled $5.6 billion in fiscal 1997, up about 4 percent from the previous year.

Over 26 million children in almost 95,000 schools and residential childcare institutions participated in the National School Lunch Program each school day in fiscal 1997. The program is available in about 99 percent of all public schools and in many private schools. About 58 percent of children (in the schools and institutions offering school lunch) participated in the program. A total of 4.4 billion lunches were served under the program in fiscal 1997, of which almost 50 percent were free and another 8 percent were offered at reduced prices.

Almost 1.2 billion breakfasts were served to children under the *School Breakfast Program* in fiscal 1997, almost 6 percent more than in the previous year. Eighty percent of all meals served in the program in fiscal 1997 were free and another 6 percent were at reduced prices. Expenditures for the School Breakfast Program totaled $1.2 billion in fiscal 1997, or about 9 percent more than the previous year—a continuation of the program's rapid expansion in recent years. The Welfare Reform Act of 1996 eliminated funds for startup and expansion of the School Breakfast Program effective October 1, 1996.

The Child and Adult Care Food Program operates in childcare centers, family daycare homes, and adult daycare centers. A total of 1.6 billion meals were served under the program in fiscal 1997, 98 percent of which were in daycare homes or childcare centers and only 2 percent were in adult daycare centers. Expenditures for the program totaled almost $1.6 billion in fiscal 1997, an increase of about 3 percent over fiscal 1996. Almost 81 percent of all meals in the Child and Adult Care Food Program were served free and another 4 percent were reduced price in fiscal 1997.

In child and adult daycare centers, the eligibility standards for free and reduced-price meals are the same as those for the school lunch and breakfast programs. In family daycare homes, all meals served in daycare homes operated by low-income providers or located in low-income areas are reimbursed at "tier I" rates. In all other family daycare homes, meals are reimbursed at lower "tier II" rates, unless a child has been determined to meet the eligibility standard for free and reduced-price meals, in which case the meals served to that child are reimbursed at the tier I rates.

Over 133 million meals and snacks were served to children during school vacations under the *Summer Food Service Program* in fiscal 1997, or 6 percent more than the previous year. During the peak month of July, an average of 2.3 million children in 28,000 sites participated each day. All meals under the program are served free. Program costs totaled $243 million in fiscal 1997, about 3 percent less than in the previous year. The Welfare Reform Act of 1996 eliminated funds for startup and expansion of this program effective October 1, 1996, and reduced meal reimbursement rates effective January 1, 1997.

USDA expenditures for the *Special Milk Program* totaled $17.4 million in fiscal 1997. This was an increase of almost 4 percent over the previous year, the first increase in 6 years. In fiscal 1997, 140.7 million half-pints of milk were served under this program, 2 percent less than the previous year. Program outlays increased in fiscal 1997, despite the decrease in the number of half pints served, because of the large increase in the reimbursements provided by USDA for paid milk—from an average

11.48 cents per half pint in fiscal 1996 to 12.31 cents in fiscal 1997. Over 6 percent of all half pints were served free in fiscal 1997.

Supplemental Food Programs Expand

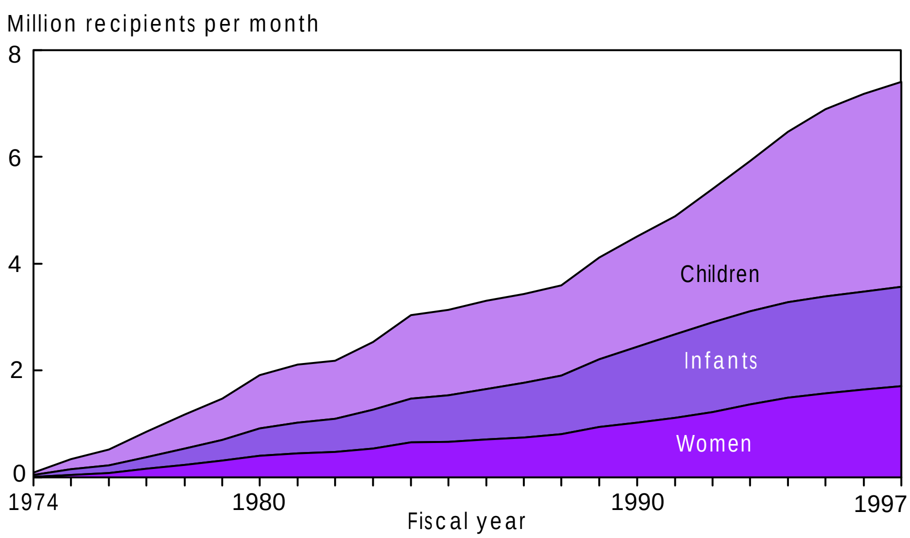
Expenditures for supplemental food programs, consisting of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the much smaller Commodity Supplemental Food Program, totaled $3.9 billion in fiscal 1997, an increase of 4 percent over fiscal 1996.

In terms of Federal expenditures, the *Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)* is the third largest food-assistance program. Expenditures for WIC totaled $3.8 billion in fiscal 1997, up 4 percent from the previous year. (The expenditure data for fiscal 1997 does not include the costs associated with the WIC Farmers' Market Nutrition Program. This program provides additional coupons to WIC recipients that they can use to purchase fresh fruits and vegetables at participating farmers' markets.)

WIC served an average of 7.4 million people per month in fiscal 1997. This represented an increase of 3 percent over fiscal 1996, a continuation of the program's sharp growth since its establishment in 1974 (fig. 3). This expansion has been largely the result of increases in cost-containment measures, especially infant formula rebates, as well as increases in appropriated funds. Twenty-three percent of WIC recipients in fiscal 1997 were women, 25 percent were infants, and 52 percent were children. After rebates, the food benefits distributed to WIC recipients cost about $31.68 per person per month in fiscal 1997.

Expenditures for the *Commodity Supplemental Food Program* totaled $98.7 million in fiscal 1997, about 2 percent less than the previous year. Like the WIC program, the Commodity Supplemental Food Program provides supplemental foods to low-income women, infants, and children. However, unlike the WIC Program, it also serves the elderly. In fiscal 1997, an average of about 370,000 people participated in the program each month, up 4 percent over the previous year. The number of elderly participants, who now comprise almost two-thirds of the program's participants, increased almost 11 percent in fiscal 1997. At the same time, the number of women, infants, and children in the program dropped 7 percent. This is a continuation of the trend in recent years of eligible women and their children joining the WIC program rather than the Commodity Supplemental Food Program.

Figure 3
Participation in WIC Continued To Grow in Fiscal 1997



Outlays for Food Donation Programs Increase

Over the past decade, the food donation programs have contracted significantly, due largely to the reductions in stocks of surplus foods that USDA acquires through its commodity price-stabilization and surplus-removal activities in support of farmers, and which it distributes to a variety of institutions serving the needy. Modifications in the price-stabilization and surplus-removal programs and changing market conditions have resulted in less surplus food being available for distribution through these programs. However, this trend was reversed in fiscal 1997, as total outlays for food donation programs increased almost 36 percent over fiscal 1996. Most of this increase was due to the expansion of The Emergency Food Assistance Program.

An average of 124,000 American Indians participated in the *Food Distribution Program on Indian Reservations* each month in fiscal 1997, about 3 percent more than during fiscal 1996. Costs of the program totaled $71.2 million in fiscal 1997, an increase of about 1 percent over the previous year.

The *Nutrition Program for the Elderly*, administered by the U.S. Department of Health and Human Services, receives commodity foods and financial support from USDA. About 247 million meals were served under this program in fiscal 1997, about the same as in the previous year. USDA program costs under this program totaled $145.2 million, about the same as in the previous year.

The *Disaster Feeding Program*, administered by the Federal Emergency Management Agency (FEMA), receives food commodities from USDA during major disasters and emergencies. USDA expenditures for this program totaled over $1 million in fiscal 1997, an increase of 57 percent over the previous year. Most of this assistance was provided to victims of floods, tornados, blizzards, power outages, and severe winter weather.

Expenditures for the *Food Distribution Programs for Charitable Institutions and Summer Camps*, among the smallest of USDA's food-assistance programs, totaled $6.3 million in fiscal 1997. This represented a decrease of 43 percent from the previous year—the largest percentage decrease among all the food-assistance programs.

Expenditures on food-assistance programs fell in fiscal 1997 for the first time since fiscal 1982. This is in marked contrast to the double-digit growth during the early 1990's when deteriorating economic conditions—particularly increased unemployment—increased the demand for food assistance.

As a result of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the *Food Donation Program to Soup Kitchens and Food Banks* and *The Emergency Food Assistance Program (TEFAP)* were combined into a single program effective in fiscal 1997. For reporting purposes, expenditures for this new program are reported under TEFAP. Expenditures for the new program totaled $191.9 million in fiscal 1997, or 140 percent more than the combined expenditures of the two programs the previous year.

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Economic Growth, Welfare Reform, and the Food Stamp Program

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The Federal welfare system is an integral component of the social safety net for American families during times of financial need. Along with programs such as unemployment insurance, welfare enables families to maintain a minimum standard of living when other sources of income decline. Welfare encompasses a variety of assistance programs, notably cash assistance, Medicaid, housing assistance, and food stamps.

The nature of welfare was fundamentally changed by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, better known as welfare reform. Since passage of the Act, USDA's Food Stamp Program is now one of the only assistance programs available based primarily on financial need. The importance of this program will be especially apparent during times of increased economic need, such as recessions.

Since 1994, the number of people receiving welfare and food stamps has declined dramatically. While part of this decrease may be attributable to changes in welfare rules, the expanding economy was a major factor. Assessing the relative contributions of economic conditions and welfare changes on these recent declines is important to the effective administration of welfare programs and the Food Stamp Program.

Legislation Creates New Welfare Program...

Prior to welfare reform, the main cash assistance program was Aid to Families with Dependent Children (AFDC), established as part of the Social Security Act of 1935 to serve single parents with children under age 18. Each State set its own eligibility requirements and support levels, and these varied widely. In 1994 for a family of three, Mississippi provided the lowest benefits ($120 per month) in the 48 contiguous States, and Connecticut provided the highest ($680 per month). The inflation-adjusted value of AFDC payments had declined dramatically. The median amount paid by a State was $792 per month (in 1994 dollars) to a three-person family in 1970, but had declined to only $435 by 1993, a drop of nearly 45 percent.

With the passage of welfare reform, AFDC was replaced with a new program called Temporary Aid to Needy Families (TANF) . Under AFDC, States committed a certain amount of assistance per recipient, and the Federal Government matched every dollar of State aid with approximately $1.10 of Federal aid. Under the block-grant structure of TANF, however, every State is given a fixed sum of Federal money (based on recent spending levels for AFDC) and, with a wide amount of latitude, they are free to design how this assistance is provided. For example, States can use what was previously cash assistance to set up job training programs to give recipients skills to enter the work force. The assumption is that this increased freedom enables States to construct welfare programs that meet the particular needs of their low-income population.

The Act also ended the Federal guarantee of some minimum standard of living for poor families with children. Under AFDC, this guarantee was made without employment demands placed on the heads of families and without time limits. Under welfare reform, 25 percent of the single-parent families receiving TANF benefits must be working at least 20 hours a week by 1997, and 50 percent must be working at least 30 hours a week by 2002. For two-parent families, 90 percent must be working a combined 35 hours a week by 1999. If States do not meet these requirements, their grant from the Federal Government will be cut by 5 percent the first year and an additional 2 percent in each subsequent year. This provides an impetus for States to move families into the workplace and off of welfare.

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The unrestricted nature of AFDC was also changed. Under TANF, recipient families can receive benefits funded by Federal monies for a lifetime total of only 5 years. States can make this limit less binding by exempting up to 20 percent of their families from the 5-year limit. But, they can also impose stricter limits—as little as 2 years of receiving assistance.

...And Cuts the Food Stamp Program

The Act cut more funds from the Food Stamp Program than from any other program, through reductions in benefits per person and restrictions in eligibility. Expenditures for the Food Stamp Program are projected to decline by about $22 billion during 1997 to 2002 from what they would have been without reforms. The benefit levels for recipients fell from an average of 80 cents per person per meal to 75 cents. This reduction occurs for several reasons: a family (one or more persons) can now receive food stamps worth a maximum of 100 percent of the cost of USDA's Thrifty Food Plan (suggested amounts of foods that make up a nutritious diet and can be purchased at a relatively low cost), down from 103 percent; the standard deduction used in calculating the benefit levels of households is capped at 1996 levels; increases in the deduction for shelter expenses are specified through 2001, after which it no longer increases; some non-Federal energy assistance is now counted toward household income; and the earnings of primary or secondary school students older than age 17 (instead of 22) are now counted toward household income.

Along with reducing benefits, the Act generated cost savings by making ineligible approximately over 1 million food stamp recipients. Most legal immigrants are now ineligible. However, refugees and those granted political asylum may be eligible for 5 years from the date admitted or granted asylum. Immigrants admitted for lawful permanent residence may be eligible if they have U.S. military service or if they can be credited with at least 40 quarters of qualified work (their own or a spouse or parent). Forty quarters of work is approximately 10 years of work.

Able-bodied adults between the ages of 18 and 50 and without dependents who are working fewer than 20 hours a week are eligible for food stamps for only 3 months in any 36-month period. However, States can apply for waivers that exempt these adults from the work requirement in areas where the unemployment rate exceeds 10 percent or where there is a scarcity of employment opportunities. Forty-three States and the District of Columbia have applied for waivers for at least one area in their State. And, legislation in 1997 allows States to grant exemptions of the work requirements to up to 15 percent of individuals not otherwise subject to those requirements.

But Food Stamp Program's Importance Grows

While the size of the Food Stamp Program has decreased, its importance to welfare assistance has increased. States now receive fixed TANF grants that do not expand as needs increase, unlike under AFDC. States are now responsible for any increase in assistance (previously, States were responsible for about half of any increase). Additionally, families may receive TANF funds for only 5 years. The Food Stamp Program, however, has the authority to expand during recessions and remains available to households whose TANF funds have expired.

Three criteria must be met to qualify for food stamp benefits. Qualifying households must be both income and asset poor. That is, the gross income of a household must be at or below 130 percent of the poverty line ($1,445 per month in fiscal 1998 for a three-person household, the most common food stamp household). The net income of households, after subtracting from cash income such items as the standard and shelter deduction and credit given for earned income, must be below 100 percent of the poverty line. Virtually all households with gross incomes below 130 percent of the poverty line have net incomes below 100 percent of the poverty line. A household must also have assets worth less than $2,000 ($3,000 for households with someone 60 years of age or over).

The maximum amount of food stamps a household can receive depends on household size. For example, a three-person household can receive up to a maximum of $321 per month in fiscal 1998, while a four-person household can receive up to $408 per month (these amounts are for a household with no net income). Benefits also vary with income. Food stamp benefit levels fall by 30 cents for each additional dollar of increased household net income.

Food Stamp Participation Sensitive to Economy's Health

During a recession, average household earnings fall and unemployment rates increase. For example, during the recession of the early 1980's, median incomes (expressed in 1995 dollars) fell from $34,011 in 1978 to $31,957 in 1983, and the unemployment rate rose from 6.1 percent to 9.6 percent.

The fall in earnings and increase in unemployment affected both participation and average benefit levels in the Food Stamp Program. Participation increased as more people became eligible due to lost jobs or falling incomes. In 1978, 16.0 million people participated, and by 1983, 21.6 million people participated. (Before the Food Stamp Act of 1977, participants had to pay a portion of the value of food stamp coupons from their own resources. The elimination of this purchase requirement also caused the number of participants to increase.) Out of already participating households, those with earned incomes (about 20 percent of food stamp households have earned income) saw a fall in income and, consequently, an increase in food stamp benefits. Conversely, during an economic expansion, fewer people will be eligible and existing participants will generally receive lower benefit levels.

Unemployment and food stamp participation rates both increased during the recession of the late 1980's and early 1990's (fig. 1). The correlation between food stamp participation rates and the poverty rate is even closer—there were declines in both series in every year from 1983 to 1989.

The Food Stamp Program remains one of the only entitlement programs for the majority of the population that can expand to meet the increased demands of economic downturns. With the block-grant structure of TANF, States now face an increased price of providing assistance and, during times of economic downturn, they may not have the fiscal ability to meet heightened demands. (There is a small contingency fund available for States wanting to increase expenditures on assistance programs but lacking the money to do so.) If State expenditures on assistance programs per recipient decline during a recession, there will be a corresponding increase in food stamp benefits (because benefits are tied to a household's income). The Food Stamp Program's role in the social safety net is also expanded because it enables households who have exhausted their 5-year limit for TANF benefits to still obtain food. (Many nonworking able-bodied adults without dependents and immigrants do not, however, qualify.)

Economic models developed by USDA's Economic Research Service (ERS) examine how unemployment and other factors affect food stamp participation rates and poverty rates. The models used data from 1971 to 1996 (1971 was the year national standards were established for the Food Stamp Program and States were required to inform people requesting welfare assistance about food stamp benefits).

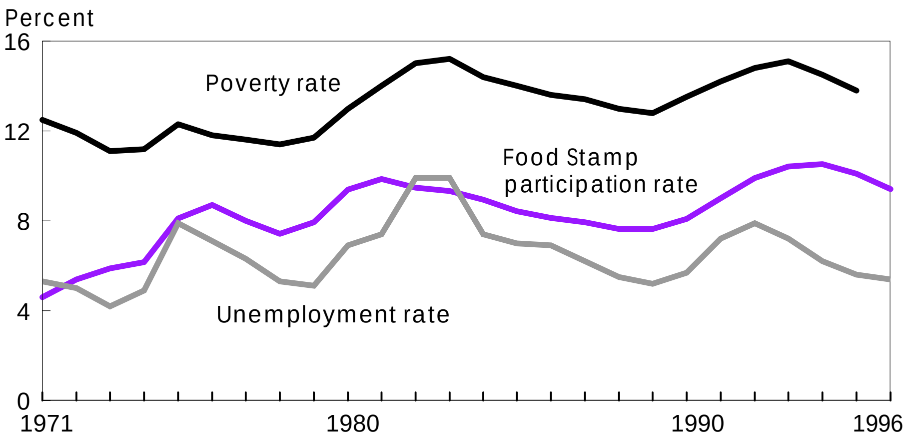
The models show that while inflation does not have a large effect on the poverty rate, it does on the food stamp participation rate. This is possibly due to the fact that nominal wages have not kept pace with inflation, leading to a larger population eligible for food stamps. And, as the real value of AFDC benefits declined (only four States tied their benefit levels to the inflation rate), more people entered the Food Stamp Program.

The models also show that the relationship between the U.S. economy and food stamps changed after 1990, but it did not change for poverty. This is probably due in part to the increased percentage of eligible households deciding to enter the program. From 1989 to 1992, the share of eligible households participating in the Food Stamp Program grew from 59 to 74 percent, according to research commissioned by the USDA's Food and Nutrition Service.

ERS simulated the effects on food stamp participation of a mild economic downturn similar to those of the late 1980's and early 1990's, with unemployment rates ranging from 7.6 percent to 8.3 percent and inflation rates of 1.7 percent to 2 percent. If such an event were to occur, the ERS model projects food stamp participation rates to rise as high as 10.58 percent—slightly above the previous high of 10.49 percent in 1994.

Figure 1

Food Stamp Participation and Poverty Mirror Health of Economy



Notes: The poverty rate is the number of persons in households below the poverty line, divided by the U.S. population. The unemployment rate is the number of unemployed males looking for work, divided by the number of males in the U.S. labor force. The food stamp participation rate is the number of persons receiving food stamps, divided by the U.S. population.

Improving Economy Results in Declining Welfare Cases

Future growth or contraction of the Food Stamp Program depends both on the state of the economy and the success of the Act in moving people from welfare to work. In recent years, many States have seen their welfare rolls decline dramatically. Disentangling the impact of various factors on these recent declines will help us understand what lies ahead for the Food Stamp Program.

Beginning in 1962, States could apply for Federal waivers to make changes in their AFDC programs. Not many Federal waivers were requested, however, until the Bush and Clinton administrations. By 1996, 43 States had applied for some form of waiver. For example, Wisconsin received a waiver to implement a Learnfare program, which mandated that all teenagers without high-school diplomas or equivalents must be enrolled in school or else the family's benefit level would decline. Connecticut established the Reach for Jobs First program, which included a 21-month time limit for employable recipients to continue receiving benefits and allowances for families to keep all benefits as earnings increase (up to the poverty line).

At the same time, the United States has been in the third longest economic expansion in the twentieth century. Since 1992, there has not been a quarter with a negative Gross Domestic Product growth rate.

Coinciding with these Federal waivers and the economic expansion were sharp declines in welfare participation in nearly every State. The declines are very large in some States. (In Wisconsin, for example, the number of AFDC recipients fell 48 percent between 1993 and 1996, and Oregon cases fell by 43 percent.) An important question then becomes: to what extent are these declines attributable to State changes in welfare programs and to what extent are they due to economic expansion?

Before turning to this question a cautionary note is in order. The ultimate goal of welfare reform is to improve the well-being of poor families, not just to remove people from welfare. Declining caseloads in and of themselves do not give any information as to whether families are better or worse off; they indicate only that fewer people are receiving welfare. An accurate assessment of the Act's effects requires an analysis of the well-being of poor households before and after its implementation. A decline in the poverty rate, combined with a decline in welfare cases, is one possible indicator that people are moving off of welfare and out of poverty. From 1995 to 1996, there was no statistically significant change in the poverty rate—13.8 percent in 1995 and 13.7 percent in 1996. Thus, many families during this period were leaving welfare but they were still poor.

In a widely publicized study, the President's Council of Economic Advisers found that 44 percent of the decline in AFDC caseloads from 1976 to 1996 was due to economic expansion and 31 percent was due to Federal waivers. They analyzed how State AFDC caseloads changed due to a State's unemployment rate, its generosity of benefits, and the date States applied for Federal waivers and the types requested. These estimates have been cited as evidence of the success of welfare reform. This conclusion is not accepted by many experts in poverty research, however. Researchers at the Urban Institute argue that the impact of Federal waivers is overstated because the Council of Economic Advisers' model considered welfare reforms occurring when a waiver was approved rather than when it was implemented. In some cases, this gap can be quite large. In Delaware, for example, the Federal Government approved a waiver on May 8, 1995, but the change is not expected to be implemented until September 1998.

Economists at the Institute for Research on Poverty at the University of Wisconsin have found much lower impacts of welfare reform than did the Council of Economic Advisers. For the 26 States experiencing at least a 20-percent decline in AFDC caseloads between 1993 and 1996, 78 percent can be attributed to the improved economy and only 6 percent to Federal waivers.

For More Details...

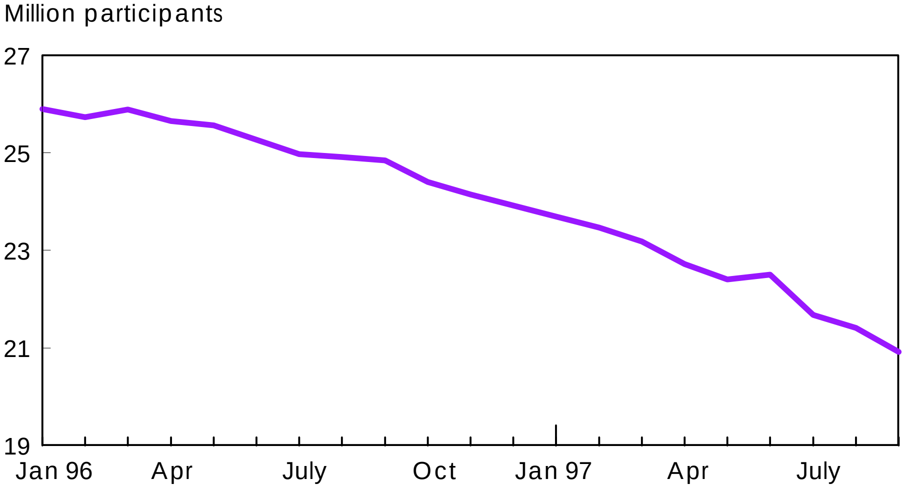
The models used to compare the economic determinants of food stamp participation rates and poverty rates and to make projections of their future rates are discussed in greater detail in "The Food Stamp Program, Welfare Reform, and the Aggregate Economy," by Betsey A. Kuhn, Michael LeBlanc, and Craig Gundersen in *American Journal of Agricultural Economics*, Volume 79, Number 5, 1997. The article also summarizes the Personal Responsibility and Work Opportunity Reconciliation Act, with special emphasis on its impact on the Food Stamp Program; estimates the impact of cuts in food stamp benefits on the agricultural and nonagricultural sectors of the economy; and analyzes the potential interactions between TANF and the Food Stamp Program.

Implications for the Food Stamp Program

Distinguishing the effects of welfare reforms and economic expansion on declining welfare caseloads has important implications for the Food Stamp Program. As welfare caseloads declined, so did food stamp caseloads (fig. 2). From January 1996 to May 1997, food stamp participation fell from 25.9 million people to 22.4 million. Ninety percent of AFDC/TANF

Figure 2

Number of Food Stamp Recipients Has Fallen by 20 Percent Since January 1996



recipients also receive food stamps, and families tend to move on and off multiple welfare programs. Thus, while part of this decline must be attributed to the ineligibility of many immigrants and unemployed childless, able-bodied adults, at least some of the decline is probably due to the same factors underlying the recent decline in AFDC/TANF caseloads, including a growing economy, a low unemployment rate, and a low inflation rate.

The impact of future recessions on food stamp participation rates will be mitigated if welfare reform has produced permanent changes in welfare caseloads. If, however, the recent decline is primarily due to economic expansion, the decline in food stamp participation rates will probably be temporary. During the next recession, food stamp participation rates would rise again as predicted in the ERS model.

Regardless of the success of welfare reform, two factors may increase food stamp expenditures during an economic downturn. First, as TANF benefits expire and families enter a bleak labor market, their incomes will fall (unless jobs are found), leading to an increase in their food stamp benefits. Second, if States transfer funds from cash to noncash assistance programs (instead of giving families a check, for example, a State provides subsidized daycare for the family, enabling the mother or father to work outside the home), the income of TANF recipients will fall, leading to an increase in food stamp benefits. According to researchers associated with the Economic Policy Institute, States may do this in order to maximize their receipt of Federal aid in the form of food stamps.

If welfare reform enables people to enter and become established in the workforce, the impact of the next recession on food stamp expenditures will be mitigated. If, however, temporary economic expansion is primarily responsible for the recent decline in food stamp caseloads, future recessions will increase expenditures for the Food Stamp Program, as has happened in the past. The impact likely will be even greater because of the potential fiscal inability of States to increase TANF payments. If this occurs, average incomes will fall and food stamps will expand to fill the increased food need.

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School Lunch Reform: Minimal Market Impacts From Providing Healthier Meals

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Children's diets, including meals consumed in schools, met some but not all of the recommendations for a healthy diet, according to a 1992 School Nutrition Dietary Assessment study about the foods and nutrient content of meals offered to and consumed by students.

While school lunches met or exceeded the required one-third of the Recommended Dietary Allowances (RDA's) for key nutrients, they offered 38 percent of calories from fat and 15 percent of calories from saturated fat—considerably more than the recommendation that 30 percent or less of calories come from fat and less than 10 percent of calories come from saturated fat as adopted in the 1990 *Dietary Guidelines for Americans*. The study also showed that lunches provide too much sodium (an average of 1,479 milligrams)—nearly two-thirds the National Research Council's recommendation for daily intake.

A major effort to improve the nutritional quality of school meals came in 1994 when USDA launched the School Meals Initiative for Healthy Children, the largest change the National School Lunch Program has undergone since its inception. Supported by legislation in 1994 and 1996, the initiative required USDA to update nutrition standards so that all school meals meet the nutrition recommendations of the 1990 *Dietary Guidelines for Americans.* New regulations implementing the initiative became final in June 1995 and took effect at the beginning of the 1996-97 school year.

At the heart of the proposal was the belief that meals served in the Nation's schools should meet Federal nutrition standards, be palatable to children, be manageable for school foodservice operations, and minimize impacts on agricultural commodity markets. The overall Federal budget was also of concern, so the initiative had to be achieved without increasing costs.

School lunches will undergo many changes in the types of foods offered and the preparation methods as they come into compliance with the new regulations (see box on the National School Lunch Program Today). For example, more vegetables and grain products likely will be offered, while less meat, poultry, fish, and eggs in entrees will be offered. Schools will have flexibility in determining which approach to meal planning they use to meet the new requirements. While menus will be changing, farmers who produce those foods will feel little impact from the changes because only a relatively small amount of those products are used in school meals.

The findings reported here are based on projected economic and behavioral impacts of the initiative. A model was developed to estimate changes in eating behavior that children were likely to undergo once the Dietary Guidelines were implemented in National School Lunch Program meal offerings. It takes into account foods offered to students, nutrient content of foods, ingredient costs, and USDA's Food Guide Pyramid commodity groups. The results of the model were used to judge likely impacts on agricultural commodities (see box on marketplace reactions).

Reform Focuses on Children's Diet and Food Preferences

USDA's commitment to working with State and local agencies in implementing the *Dietary Guidelines for Americans* in school meals is balanced with its support of U.S. agri-

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cultural production. At times these goals may seem to be at loggerheads because some foods, such as beef, may contain a relatively high amount of fat. Still, beef has become leaner and it also contains essential vitamins and minerals. Its production plays an important role in the agricultural economy. The tradeoffs between these two seemingly competing interests has important implications for agriculture, child nutrition, and Federal food policy. USDA maintains the position that there are no "good" or "bad" foods, but food choices as a whole should be balanced in a healthful diet.

Three alternative scenarios are used to illustrate some of the range of meal options available to schools in implementing the new reforms and also to illustrate the likely economic impacts. Each scenario meets the *Dietary Guidelines for Americans* and policy constraints, such as the requirement that fluid milk be offered with lunch, that USDA-donated butter be eliminated, and that food costs not increase. In each scenario, the model determines the "optimal amounts" of specific foods. Foods were allowed to vary within food groups (such as high-fat and low-fat bakery products) and across food groups (such as beef, vegetables, and fruits). The optimal

The National School Lunch Program Today

USDA establishes regulations and administers the requirements and implementation of the National School Lunch Program.

Under the law, all students enrolled at participating schools are entitled to take part in the National School Lunch Program. Children from homes with incomes at or below 130 percent of the Federal poverty level ($20,865 for a family of four in the 1997-98 school year) can receive their lunch free. Children from homes with incomes between 130 and 185 percent of the Federal poverty level ($29,693 for a family of four) are eligible for reduced-price lunches, for which students can be charged no more than 40 cents. Children in other households pay the full price of the lunch, but these are also subsidized to some extent.

USDA reimburses schools for all lunches that meet program requirements and nutrition guidelines. The current cash reimbursement rates are $1.89 for free lunches, $1.49 for reduced-price lunches, and $0.18 for full-price lunches. USDA also provides administrative support and agricultural commodities. Participating schools are also eligible to receive additional agricultural commodities that USDA procures from its farm commodity programs.

Until the School Meals Initiative for Healthy Children in 1994, the Federal nutrition requirements for school lunches had not changed significantly since the school lunch program began in 1946. New regulations designed to improve the dietary quality of school meals and meet USDA's *Dietary Guidelines for Americans* were finalized in 1995. This major regulatory change in the National School Lunch Program is part of an integrated, comprehensive plan for promoting the health of children. School meals are required to meet specific nutrition standards that reflect medical and scientific consensus on proper nutrition as a vital element in disease prevention and long-term health promotion.

The new regulations require schools to have met the Dietary Guidelines by school year 1996-97, unless they received a waiver for up to 2 years. As part of the initiative, USDA published regulations to help schools bring their meals up to date to meet the *Dietary Guidelines for Americans*, which recommend among other things that no more than 30 percent of calories come from fat and less than 10 percent come from saturated fat.

The new regulations also establish a standard for school lunches to provide one-third of the RDA's of protein, vitamin A, vitamin C, iron, calcium, and calories. Schools' compliance with both the Dietary Guidelines and the RDA's is measured over a week's menu cycle.

Schools serve foods that are popular with children in order to maintain high participation rates. Most schools offer hamburgers and cheeseburgers, pizza, hot dogs, chicken nuggets, and peanut butter sandwiches among their main course choices. Popular side dishes include french-fried potatoes, raw carrots, salad, apples, and peaches. Bread is often offered as a component (such as a hamburger bun) of the most popular dishes, and milk is required to be offered as a beverage.

The new Federal regulations do not require schools to serve—or not serve—any particular foods except that schools are required to offer milk. School meals must meet Federal nutrition requirements, but decisions about which of the available menu planning systems to use, what foods to serve, and how they are prepared are made by local school food authorities.

Schools may choose any one of five systems for their menu planning: NuMenus, Assisted NuMenus, traditional meal pattern, enhanced meal pattern, and other "reasonable approaches." Both the NuMenus and Assisted NuMenus systems base their planning on a computerized nutritional analysis of the week's menu. The traditional and enhanced meal pattern options base their menu planning on minimum quantities of meat or meat alternate; vegetables and fruits; grains and breads; and milk. The fifth menu option allows schools to develop other "reasonable approaches" to meeting the nutrition requirements, using menu planning guidelines.

amounts of foods were those that met all the nutrition and policy goals while deviating the least from actual consumption patterns observed in school meals.

The first scenario illustrates the impact of minimizing the change in current food offerings to students. The third scenario demonstrates the smallest impacts on the market (such as farm revenue and prices paid to farmers) from providing healthy meals to students.

The second scenario was designed to show how the results could change if lower fat preparation techniques were followed. For example, baked or broiled meat has less fat than does deep-fried meat. Although chicken was used in the second scenario for illustrative purposes, other commodities, such as beef or pork, might show similar changes if substitutions are made between higher and lower fat alternatives. Menu offerings that meet the new requirements will evolve as products are reformulated to reduce their fat content, new quantity recipes are developed, and additional lower fat products become available.

Children May See Changes in Offerings...

Minimum change in current offerings

Scenario one establishes the amounts of foods from each of the food groups required to meet dietary, cost, and milk requirements with as little deviation as possible from students' current menu options. Meals likely will contain less meat and more grains. One way to accomplish this is for beef to be used more often in mixtures (such as chili) rather than as separate items (such as roasts or hamburger patties), because there is relatively less beef in the mixtures. Large increases in the amount of bread and other grain products, and fruits are also needed in this scenario. For example, it is expected that cereals and grains will more than double from 45 grams to over 96 grams per day. Likewise, fruits and fruit juices will likely increase 75 percent.

Lower fat preparation

In the second scenario, high-fat chicken preparation techniques (such as fried chicken nuggets) were entirely replaced by lower fat prepa-

Determining How Children and the Marketplace Will React

As one Congressman put it, "...[school lunch is] not nutritious if kids don't eat it." USDA's Economic Research Service, in cooperation with the Food and Nutrition Service (FNS), developed a behavioral model to reflect how children will react to changes in their lunch menu (current school lunch menus were used as the baseline). The model incorporated information on the kinds, amounts, nutrient content, and costs of foods offered in school lunches. Foods and recipes were limited to those actually offered in schools. The behavioral model was designed to allow the types of foods offered to students to vary from baseline food groups and serving sizes under three separate scenarios so long as nutritional, cost, and policy constraints were maintained. Since the palatability of the school meals is important to keep participation levels up, the model minimized changes in the foods that are popular with children.

Data for the model were obtained from a number of sources. The types of foods offered in lunches were obtained from a 1992 FNS-sponsored survey of 3,550 students in grades 1 through 12 in about 545 schools throughout the country reporting detailed information on the kinds and amounts of foods they consumed over a 24-hour period. Only the portion of data on foods offered to students as part of accredited school lunches was used in this study in order to focus on Federal requirements for the meals. Therefore, all of the effects of changes in the school lunch program reported in this article are based on reimbursable meals and do not include foods purchased à la carte. The 1992 School Nutrition Dietary Assessment survey contained over 600 foods offered in the National School Lunch Program. These foods were coupled with nutritional content information from USDA's nutrient database and categorized into over 50 food groups, including high-fat and low-fat versions of different categories, such as baked goods and meats.

The three scenarios estimate impacts using 1992-93 market prices for foods available and in use by schools. Food costs came from a nationally representative sample of schools included in the FNS-sponsored School Lunch and Breakfast Cost Study during the 1992-93 school year. The total median reported cost of producing National School Lunch Program meals, which included both direct costs (such as labor, supplies, and utilities) and indirect costs (such as administrative, facilities, services, and employee benefits) was about $1.63, compared with the $1.84 Federal subsidy for free meals. About $0.77 of the $1.63 was attributed to food costs.

ration techniques (such as baked or broiled chicken parts). Food preparation techniques in other food categories were not modified in order to observe the impacts on other products. This scenario showed that alternative formulations can be made to lunch entrees without removing the foods children enjoy eating. But, changing the preparation technique for only chicken causes greater decreases in the amounts of other meat products, such as beef and pork, unless lower fat preparation techniques are also used on these products.

No change in commodity markets

In the third scenario, menu selections may vary within a commodity group, but the quantities offered for each commodity must remain the same as those currently offered. For example, beef could be consumed alone or in a mixture, such as lasagna, but the total quantity of beef was required to be the same as currently offered. The exception to this rule was that butter would no longer be used as part of the meal. For many years, butter was a surplus agricultural commodity provided free to schools. However, rising concerns about the adverse health effects of saturated fat and cholesterol eliminated the use of butter in the school lunch program. Since most butter used in school lunches was donated by USDA, and donations to schools have since ceased, we eliminated butter in this analysis (although schools can and do purchase some butter).

Dietary improvements can be made to school lunches without changing the amount of food used from major agricultural commodity groups, but more drastic changes within the various commodity groups (such as using only lean beef products) are needed to achieve this goal than is necessary in the other scenarios. In general, this adaptation required choosing low-fat foods within food groups. Notable exceptions included serving high-fat chicken and potato products, probably due to the need to obtain sufficient calories at a relatively low cost. Also, food costs became more of a limiting factor in this scenario, so the optimal solution contained few of the more costly foods (such as high-value vegetable products).

...But Small Impacts on Agricultural Markets Expected

With the exception of fluid milk, foods used in the National School Lunch Program account for a minor share of the overall food supply (table 1). Vegetables are one of the most heavily used commodities in the program, and they comprise only about 1.8 percent of the U.S. vegetable market. Likewise, the National School Lunch Program uses just 2.0 percent and 1.6 percent of the U.S. supply of cheese and pork, respectively. As a result, the effects of the program changes on the supply, production, and prices of agricultural commodities are relatively small.

The estimated impacts of only the first and second scenarios on several

Table 1

Foods Provided in the School Lunch Program Are a Minor Component of U.S. Agricultural Markets

Commodity	1993 market size: U.S. farm-level production	1993 market size: Amount going to school lunches	Predicted amount: Scenario one—Minimum change in current offerings	Predicted amount: Scenario two—Lower fat chicken preparation
	Million pounds		*Million pounds*	*Million pounds*
Butter	1,007	55	0	0
Cheese	6,633	135	53	47
Broilers	19,855	245	125	283
Turkey	4,591	105	53	121
Beef	24,040	485	385	359
Pork	17,268	280	296	280
Fruits and juices	61,055	1,097	1,815	2,234
Vegetables	71,018	1,218	1,307	1,253
Potatoes	34,079	674	376	372
Peanuts	2,050	44	50	50
Rice (million cwt)	180	1	2	2
Wheat (million bu)	2,500	16	30	28

Notes: cwt = hundredweight; bu = bushels. Sources: food supply data are from USDA's Economic Research Service; food amounts in the National School Lunch Program are from USDA's Food and Nutrition Service.

commodity markets are discussed here (see also tables 1 and 2). The third scenario would not affect commodity markets, because the quantities of commodities offered in school lunches were forced to stay the same.

Dairy Sector

Effects differed across the fluid milk, butter, and cheese components of the dairy sector. In all scenarios, the same amount of fluid milk was required, but the amount of cheese was reduced in the first two scenarios (probably due to its fat content), and butter was eliminated entirely in order to reduce fat intake. Hence, the major impacts would be on processed dairy products instead of the fluid milk market.

Total elimination of butter from school lunches was estimated to displace 55 million pounds of butter annually in the 1-billion pound U.S. market (schools are not required to eliminate butter from their menu, but its use is expected to be considerably lower than when it was donated by USDA). Eliminating butter from the National School Lunch Program will minimally affect prices dairy farmers receive, their incomes, and Federal dairy program costs, since virtually all of the butter used in school programs is donated by the Commodity Credit Corporation from stocks acquired under USDA's farm price-support programs. The portion of Commodity Credit Corporation stocks donated to schools is small and could be donated to other institutions or programs.

Under the first two scenarios, cheese consumption declines 82-88 million pounds per year, which is less than a 1-percent drop in U.S. cheese supplies. The reduced consumption of cheese would lower raw milk prices received by farmers 7-8 cents per hundredweight, causing a decline in production and lowering farm revenues about $166-178 million per year (from a 1990-93 base of $19.4 billion). Commodity Credit Corporation program costs for dairy products in turn would increase $23-25 million. These impacts are small given the size of the market. The substitution of lower fat cheese or other dairy products for some of the products currently used in school lunches could further moderate the impacts.

Broiler and Turkey Sector

Impacts on the broiler market also were estimated to be minimal. In 1993, the National School Lunch Program used about 245 million pounds of broilers, in a U.S. market of 19.9 billion pounds. Under the first scenario, National School Lunch Program broiler use would decline about 120 million pounds, lowering broiler prices to farmers about 1.8 percent and farm revenues 1.2 percent. However, since most broilers in the program are used for high-fat chicken nuggets, broiler use would increase 38 million pounds under the second scenario when lower fat cooking techniques are used. In this case, broiler prices

Table 2

Farm Revenues and Government Expenditures To Change Little With School Lunch Reforms

Commodity	1993 farm revenue	Predicted change: Scenario one—Minimum change in current offerings: Farm prices	Farm revenue	Farm program cost	Predicted change: Scenario two—Lower fat chicken preparation: Farm prices	Farm revenue	Farm program cost
	$Billion	Percent	$Million	$Million	Percent	$Million	$Million
Cheese (milk equivalent)	19.4[1]	-0.6	-166	23	-0.6	-178	25
Butter (milk equivalent)	19.4[1]	0	0	0	0	0	0
Broilers	11.0	-1.8	-134	0	.4	19	0
Turkey	2.9	-2.1	-36	0	.5	4	0
Beef	28.3	-.9	-143	0	-.9	-103	0
Pork	10.7	.2	11	0	0	0	0
Fruits	10.2	.1	124	0	.2	200	0
Vegetables	9.4	0	12	0	0	5	0
Potatoes	2.0	-.1	-20	0	-.1	-20	0
Peanuts	1.0	.1	1	0	.1	1	0
Rice	1.3	.6	9	-8	.5	7	-6
Wheat	7.3	.7	45	-35	.7	45	-35

Note: [1]Total farm receipts from milk.

would increase 0.4 percent and farm revenues would rise 0.2 percent.

As with broilers, the use of turkey in the National School Lunch Program is small (105 million pounds) relative to the total U.S. market of about 4.6 billion pounds. Under the first scenario, turkey consumption would decline by 52 million pounds, driving farm-level prices down about 2 percent and reducing farm revenues about $36 million, less than 0.01 percent of current revenues. In the second scenario, turkey consumption would increase 16 million pounds, increasing prices 0.5 percent and farm revenues $4 million.

Fruit and Vegetable Sectors

Schools use fruits and vegetables in a variety of forms, including fresh, frozen, canned, and as ingredients in commercially processed mixtures. Despite the relatively large increases in the use of fruits and vegetables under the School Meals Initiative for Healthy Children, the impact on the markets for these commodities would be minimal. In the first scenario, fruit use would increase 718 million pounds (65 percent), but farm-level prices would increase only 0.1 percent and farm revenues would increase $124 million in the $10.2-billion market. The second scenario would increase fruit consumption 1.1 billion pounds (104 percent), with farm revenues increasing $200 million.

Potato consumption in the school lunch program would decrease substantially under the first two scenarios (about 45 percent), since the majority of potatoes previously used in school meals are deep-fried and contain a lot of fat. French fries likely will be offered less often under the program reforms. Even so, the impact on potato prices would be minimal (0.1 percent) and farm revenues would decrease only $20 million. However, as illustrated in the second scenario for chicken, if the schools prepare potatoes in a relatively lower fat manner, the adjustments would help moderate the market impacts.

The use of other types of vegetables in the National School Lunch Program is expected to be increased under the reform measures. Vegetable use (excluding potatoes) would increase by about 89 million pounds (7 percent) annually under the first scenario and 35 million pounds (3 percent) in the second scenario. In the 71-billion pound U.S. vegetable market, this is not likely to affect prices, but farm revenue would increase between $5 million and $12 million due to increased vegetable sales.

Preliminary Evaluation of School Lunch Reform Mixed

As USDA was refining its School Meals Initiative for Healthy Children, it also began to study the reforms. USDA's Food and Nutrition Service sponsored a survey of State officials responsible for implementing the program, targeting directors of school food authorities participating in a demonstration project of the NuMenus system (one of the options available to the school administrators, where lunch menus and their dietary quality are planned with the assistance of computer software that computes the nutritional content of the lunch).

While the results are preliminary (only 17 school food authorities had fully or partially implemented the NuMenu system at the time of the survey) and should not be viewed as nationally representative, some common threads were revealed. To meet program requirements, the directors reported using more fresh fruits and vegetables and increasing their use of lower fat entrees and products. Some reported increasing portion sizes in middle and high school menus and using more foods high in carbohydrates in elementary menus to meet caloric needs. In fact, most directors in the demonstration project reported having difficulty meeting the caloric standard for lunches, probably due to the decreases in calories from fat and saturated fat (fat contains 9 calories per gram, while protein and carbohydrates contain 4 calories per gram). Over half of the directors reported difficulty meeting the limits on total fat and saturated fat. Some directors found that meeting the requirements for vitamin A and iron was difficult for some age groups, although this was less problematic than meeting caloric needs.

The opinions and attitudes of those implementing the National School Lunch Program in schools were also surveyed. Most directors of school food authorities and their staffs were either very or somewhat positive about the NuMenu system. They were pleased that the program ensured a healthful meal, provided an accurate assessment of nutrient content, and provided flexibility in the way meals could be served. There were many concerns, however, about the time and labor required to implement the system. For example, directors expressed serious concerns about the record-keeping necessary in performing weighted averages of all the nutrients in all the food items for all the schools in each jurisdiction.

Minor adjustments probably will be needed to further refine the regulations. Still, it looks promising that school lunches across the Nation will continue to improve as our knowledge of nutrition requirements advances. The quantitative fat limits in the 1990 *Dietary Guidelines for Americans* were quite new at the time the School Nutrition Dietary Assessment Study collected data and identified the need for selective improvements in a program that was successful at meeting target RDA nutrient levels. Federal, State, and local governments and private industry are responding by serving healthier lunches to students, educating them on the importance of long-term nutrition and health, and actively promoting sound eating habits.

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All Food Stamp Benefits To Be Issued Electronically

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The Food Stamp Program is the Nation's largest domestic food-assistance program, serving about 1 in 11 Americans each month in 1997. In the past, nearly all food stamp participants received their monthly benefits as paper coupons to redeem for food at authorized retail foodstores (see box on the Food Stamp Program). However, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires that by October 1, 2002, all States deliver food stamp benefits through an electronic benefits transfer (EBT) system. About 40 percent of all food stamp benefits are now delivered through EBT, already operating in 30 States.

EBT Eliminates Paper Food Stamp Coupons

EBT is a computer-based electronic system that allows recipients to authorize the transfer of their Government benefits to a retailer's account to pay for products received. Benefits are delivered through retail point-of-sale (POS) terminals at check-out counters in foodstores. No money or food coupons are exchanged. An EBT system can use either on-line or off-line technology.

The on-line EBT system uses the same electronic funds transfer technology that many grocery stores use for their debit card payment system. Information about the recipient's account is stored in a central computer. Recipients are issued plastic magnetic-stripe electronic benefit cards similar to a bank card, and a secret personal identification number (PIN) is selected by the client or is assigned. Benefits are electronically credited to the recipients' account each month. To buy groceries, recipients take the food items to a check-out lane equipped with an electronic reader. To access a food stamp account at the central computer, the recipient's card is run through the reader, the cashier keys in the purchase amount, and the recipient confirms the transaction and enters the PIN on a keypad. After the PIN is verified electronically, the recipient's account is debited by the amount of the purchase, and the retailer's account is credited. If the PIN is incorrect or the benefit amount in the recipient's account is insufficient to cover the amount of the intended purchase, then the purchase request is denied.

In an off-line or "smart card" system, information about the recipient's account resides on a microchip embedded in the electronic benefit card rather than in a central computer. The store terminal and benefit card interact to authorize the purchase without contacting a central computer, thereby eliminating the need for on-line authorization at the time of purchase. As groceries are purchased, the card's balance is updated to reflect the level of remaining benefits. When new benefits are authorized each month, the recipient takes his or her card to the POS terminal located in retail foodstores where the amount is added to the card. (The new benefit is automatically downloaded when the client uses the POS terminal at the checkout.) Transaction data accumulate in the POS terminal until sent in a batch message to a central computer, at which time the retail foodstore's account at a designated bank is credited.

On-line EBT food stamp projects are currently operating on a statewide basis in 16 States (Alabama, Colorado, Connecticut, Idaho, Illinois, Kansas, Louisiana, Maryland, Massachusetts, New Mexico, North Dakota, South Dakota, Oklahoma, South Carolina, Texas, and Utah) and in parts of 12 other States (Alaska, Arkansas, California, Florida, Georgia, Hawaii, Iowa, Minnesota, Missouri, New Jersey, Oregon, and Pennsylvania). Off-line EBT systems are operating in parts of Ohio and Wyoming. The other 20

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States and the District of Columbia have started implementing EBT, the status ranging from early planning through system development.

EBT Makes Food Stamp Trafficking More Difficult

USDA is committed to improving the integrity of all its food-assistance programs. However, because of the size and importance of the Food Stamp Program, there is special emphasis on reducing illegal "trafficking" in food stamps. Food stamp trafficking occurs when recipients exchange their benefits for nonfood items or sell them for cash. It is more difficult to traffic in food stamp benefits using an EBT system than a coupon-based system. For example, the only way for recipients to illegally sell or exchange their electronic food stamp benefits to other nonretailers is if they relinquish their both EBT card and PIN. The buyer must trust the seller not to report the EBT card as lost or stolen before the buyer can access the benefits. If the card is reported lost or stolen, a hold is placed on the benefit account.

EBT technology also discourages trafficking between a recipient and a retailer. Unlike the coupon-based system, EBT systems maintain a record of all transactions by individual recipients at each retail establishment. Unusual or suspicious transaction patterns can be identified and investigated without costly field work. If a retailer is found to be trafficking in food stamps, it is easy to identify the food stamp recipients who frequent these stores. This "electronic audit trail" is a tool for successful prosecution and is expected to serve as a deterrent to potential traffickers.

The Food Stamp Program

The Food Stamp Program is administered by USDA's Food and Nutrition Service in partnership with the States. The Federal Government pays the full cost of the food stamp benefits, as well as the cost of printing and distributing the stamps to the States and of destroying the stamps after they are used. The Federal Government also pays approximately half the cost of the States' administration of the program, which includes certifying eligible households, issuing benefits to them, and conducting employment and training activities. In fiscal 1996, Federal costs for the program totaled $24.3 billion, of which $22.4 billion (92 percent) went to benefits.

To participate in the program, households must meet eligibility requirements based on income, asset, and employment-related factors. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 ended eligibility for most noncitizens and placed time limits on benefits for able-bodied, childless adults. Benefit allotments are based on household size and income. Benefits are adjusted annually to reflect changes in the cost of the Thrifty Food Plan, a market basket of suggested amounts of foods that make up a nutritious diet and can be purchased at a relatively low cost. The monthly food stamp benefits averaged $73.21 per person, or about $177 per household, in fiscal 1996.

Food Stamp Program benefits have traditionally been delivered through paper coupons that can be redeemed for food at authorized retail foodstores. Food stamps, in booklet form with coupons in denominations of $1, $5, and $10, are distributed to recipients at State welfare offices, other issuance agents such as banks, or directly by mail. Retailers are required to give "change" in cash for food stamp purchases when change of less than $1 is due. After recipients exchange the coupons for food at authorized retail foodstores, the retailers redeem the coupons at a participating financial institution for cash credit. The banks process the coupons and forward them to a Federal Reserve Bank. The Federal Reserve, in turn, checks the coupons for counterfeits, credits the account of the sending bank, destroys the coupons, and is then reimbursed by the U.S. Treasury.

Food stamps can be used to buy any food or food product for human consumption, and seeds and plants to produce food in home gardens. Food stamps cannot be used to buy alcoholic beverages or tobacco, lunch counter items or foods to be eaten in the store, vitamins or medicines, pet foods, or any nonfood items. These restrictions do not change under the EBT

Major Stakeholders Prefer Electronic Benefits Over Paper

USDA's Food and Nutrition Service (FNS) has funded a number of demonstration projects examining EBT's impacts on recipients, retailers, and financial institutions. The first project, examining an on-line EBT system for issuing food stamp benefits only, was conducted in Reading, PA, in 1984. Two other on-line demonstrations begun in 1991—in Ramsey County, MN, and Albuquerque, NM—integrated an EBT Food Stamp Program with other cash assistance programs. A food-stamp-only project using an off-line EBT system in Dayton, OH, became operational in 1992. Maryland began an on-line EBT project in Baltimore in 1989, and in 1993 became the first to operate EBT statewide. Their on-line EBT system combined the Food Stamp Program and several other welfare programs into a single electronic benefits delivery program.

FNS-sponsored studies show that in the EBT demonstration projects, the program's major stakeholders—recipients, retailers, and financial institutions—strongly preferred EBT over the coupon-based system. These projects also found that the electronic system lowered their costs.

Electronic food stamps lower the recipients' cost to participate in the program and provide greater benefit security. With the coupon-based system, most food stamp recipients have to make a monthly trip to pick up their coupons at a local issuance office, or receive their coupons through the mail. Since EBT benefits are distributed electronically, recipients do not have to incur the cost of a separate trip to the local issuance office or worry about coupons being stolen from the mail.

Since paper coupons are easily used by any holder (no identification is required), they are vulnerable to theft. Benefits are not replaced if lost or stolen. On the other hand, the use of electronic benefits by unauthorized people is more difficult than in a paper system, as use requires both the EBT card and the PIN. If a card is missing or stolen, recipients can call a 24-hour phone service to put a hold on their benefit account.

Retailers gain from EBT because the cost of handling coupons (counting, stamping, and bundling for deposit) is eliminated. According to FNS studies, the estimated savings by retailers measured in the demonstration projects varied widely, from under 1 percent in Maryland to between 20 and 38 percent in the four other projects.

Of the three stakeholders in the FNS analysis, financial institutions realized the greatest cost savings. EBT eliminates their handling, sorting, and transportation costs associated with paper coupons. Local banks in the demonstration projects reported savings of 90 percent or more, while Federal Reserve Banks reported smaller savings.

The Cost of EBT to the Government Less Definitive

While the electronic benefits transfer system reduced costs for recipients, retailers, and financial institutions, EBT's cost savings to the Government is less clear. EBT eliminates or reduces some operating costs associated with Food Stamp Program administration, such as purchasing paper, printing, storing, transporting, and destroying redeemed paper coupons. However, the implementation of an EBT system incurs some start-up costs, notably installation of POS terminals and computer lines in some or all of a store's check-out lanes, as well as the costs of training recipients and retail store personnel in using the EBT system.

In 1994, the U.S. General Accounting Office reviewed and summarized the evaluation reports from the five demonstration projects, finding considerable variation in Federal and State costs of providing food stamps electronically. Operating costs for three of the project areas were less expensive than the paper coupon system to Federal and State governments. However, when start-up costs were included, only two of the project areas were less expensive to Federal and State governments.

The demonstration projects were limited in scope, so results should not be generalized into costs applicable to other States. For example, as of April 1992, States were required to demonstrate that the EBT system they institute does not cost more to operate in any 1 year than the paper-based coupon system it replaced. Otherwise, the State must pay the costs in excess of the paper coupon system. The demonstration projects were not subject to this cost-neutrality policy.

The results of the Maryland project provide a better reflection of what can be expected when EBT is implemented statewide, since it had the only statewide project and it was the only project to include both urban and rural areas. In Maryland, the operating costs of the Food Stamp Program with EBT technology fell approximately 17 percent. However, when the operating costs of the other (cash) welfare programs were included, the overall cost of operating the multiprogram EBT system was slightly lower than the previous coupon / cash-based system. This outcome is due partly to Maryland allowing recipients of cash welfare benefits unlimited free access to their EBT account through the commercial on-line bank automated teller machine (ATM) system in order to ensure reasonable benefit access. The cost of the cash benefits programs would have been significantly lower if the number of free ATM withdrawals had been restricted (during the demonstration period, households averaged 2.36 ATM withdrawals per month).

The experience in Maryland seems to imply that implementing EBT for the Food Stamp Program alone would yield greater cost savings than the multiprogram EBT. However, some of the costs of implementing EBT in Maryland were shared between the Food Stamp Program and the cash-assistance programs.

Effect of EBT on Recipient Behavior Uncertain

The primary mission of the Food Stamp Program is to enable low-income households to obtain a better diet by increasing their purchasing power for food. Therefore, a fundamental issue regarding an EBT system for food stamps is whether it affects the number of low-income households participating in the

Food Stamp Program or changes their overall spending on food.

There is a commonly held perception that EBT will reduce the stigma or embarrassment of being perceived as a welfare recipient associated with the use of food stamps. Although it can be associated with any welfare program, stigma is easily manifested with food stamps because the paper coupons are readily observed by other shoppers. EBT can eliminate the stigma of paper coupons by making it appear that recipients are purchasing food with a debit or credit card.

Reducing the stigma for recipients (as well as participation costs) is important because it may get more eligible nonparticipants to participate. Currently, about 30 percent of those eligible, or about 10 million people, do not participate in the Food Stamp Program. Implementation of EBT, therefore, has the potential to increase the number of food stamp recipients. The evidence to date, however, does not indicate that EBT increases Food Stamp Program enrollment, recognizing that evidence of the impact of EBT alone is hard to distinguish from other factors that also affect enrollment, such as the level of general economic activity or the unemployment rate.

One of the important features of the coupon-based Food Stamp Program has been its ability to target food expenditures, thereby increasing recipients' purchasing power for food. Food stamp benefits, whether delivered as coupons or through an EBT system, must be spent on authorized food items. Any difference between net food expenditures from an additional dollar of food stamp benefits compared with that from an additional dollar of ordinary income provides a measure of how well food stamps target food expenditures compared to income.

A dollar of food stamp benefits will not typically increase net food expenditures by a full dollar. This happens because recipients spend the dollar's worth of food stamps on food, but at the same time reduce their ordinary income allocated to food. The net increase in food spending is positive, but somewhat less than a dollar.

Numerous studies have been undertaken to measure how much additional food expenditures can be expected from additional food stamp benefits. One interesting and important finding is that a dollar's worth of food stamp coupons will increase net food expenditures more than would a dollar of cash income. An FNS-sponsored review that summarized studies of the effect of food stamps on food expenditures concluded that an additional dollar of food stamp benefits increases the recipient's net food expenditure by between 17 and 47 cents. This compares with a corresponding net increase in food expenditures of between 5 to 10 cents from an additional dollar of ordinary income.

The question becomes whether the targeting of food expenditures by the Food Stamp Program will differ under an electronic delivery system. Two hypotheses illustrate how EBT might affect food expenditures differently. The first hypothesis suggests that EBT alters this role by reducing the stigma associated with the use of food stamp benefits. In this hypothesis, a reduction in stigma means that EBT food stamp benefits will be perceived by recipients to be more like cash income. Each dollar of benefits would, therefore, offset more cash food expenditures and result in a smaller net increase in food expenditures. In this case, EBT would diminish the ability of the Food Stamp Program to target food expenditures compared to income.

In the other hypothesis, EBT alters the role between food expenditures and food stamp benefits in a different direction by eliminating cash change to recipients. Under the paper coupon system, up to 99 cents in change may be legally given to food stamp recipients on a given shopping occasion. EBT eliminates cash change by deducting the exact amount of the purchase from the recipient's account, thus erasing the possibility that recipients will use the change for nonfood purchases. In addition, EBT is likely to make the illegal diversion of food stamp benefits through trafficking more difficult. By preventing the diversion of food stamp benefits for cash, EBT would increase the net expenditure on food out of food stamp benefits, and thus increase the ability of the Food Stamp Program to target food expenditures compared to income.

There are not much data available to test these hypotheses and measure whether EBT has either increased, decreased, or had no effect on net food expenditures from food stamp benefits. One source of data that can be used for this purpose is from an FNS-sponsored study that evaluated the 1993 statewide implementation of EBT in Maryland. This evaluation recorded information on recipient food expenditures before and after EBT's implementation. The data indicated that recipients' reported food expenditures decreased following EBT's implementation and that the number of trips to grocery stores increased.

Questions relating to EBT's impact on recipient spending behavior remain to be addressed. More research is needed to identify whether EBT actually changes recipients' overall expenditures on food and if so, the exact cause or combination of causes. For example, is the reduction in food expenditures found in Maryland soon after the implementation of EBT the result of less food being purchased, a lower price for the food bought, or some combination of both? Has the additional experience by Maryland food stamp recipients with EBT since its implementation in 1993 resulted in any further effect on their food expenditures? In light of the experience in Maryland, it would also be useful to evaluate the impact of EBT in other States currently implementing this system to determine whether the reduction measured statewide is a general feature of EBT or something specific to Maryland.

Welfare Reform Affects EBT

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 contained several provisions regarding food stamp issuance through EBT. For example, the Act eliminates the requirement that States must demonstrate that the EBT systems do not cost more to operate in any 1 year than the coupon-based systems they replace. (However, States must still demonstrate cost-neutrality over the life of the project.) It also gives States the option to reduce clients' food stamp allotment to pay the cost of replacing a lost EBT card.

The Act requires all States to issue food stamp benefits electronically (using either on-line or off-line systems) by 2002, unless USDA grants them a waiver due to unusual barriers in implementing EBT. The Act does not specify, however, how States are to implement EBT, but rather allows States to implement an appropriate system subject to broad Federal standards. As a result, EBT systems may vary across States. For example, while most States are implementing on-line EBT systems, at least two States—Ohio and Wyoming—are operating off-line systems. An EBT card is also not required to be operable from State to State (under the paper coupon system, food stamps could be redeemed at any authorized retail store in the country), although current regulations require that States must incorporate into their system those border stores that are necessary for their clients to access their food stamp benefits.

States also have the option to use EBT to deliver multiprogram benefits, such as Temporary Assistance for Needy Families (TANF) and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) in addition to food stamps.

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Need information on trends or historical data on food consumption, spending, food assistance programs, food trade, or other food topics? The Food and Rural Economics Division of USDA's Economic Research Service has economists, social scientists, and other specialists who can help. Use this list as your guide to contact our specialists directly, by e-mail (addresses are in parentheses) or by phone.

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